REPORT of the AUDITOR GENERAL to the NOVA SCOTIA HOUSE OF ASSEMBLY

December

2007-05250/

Office of the Auditor General

Our Vision

A relevant, valued, and independent audit office serving the public interest as the Legislature's preminent source of assurance on government performance.

Our Mission

To serve the people of Nova Scotia and the House of Assembly by making a significant contribution to enhanced public sector accountability and performance.

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Honourable Cecil Clarke
Speaker
House of Assembly

Sir:

I have the honour to submit herewith my Annual Report to the House of Assembly under Section 9A(1) of the Auditor General Act, to be laid before the House in accordance with Section 9A(2) of the Auditor General Act.

Respectfully submitted

JACQUES R. LAPOINTE, BA, CA•CIA
Auditor General

Halifax, Nova Scotia
December 6, 2006

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Introduction

1 MESSAGE FROM THE AUDITOR GENERAL AND CHAPTER SUMMARIES

INTRODUCTION

1.1 I am pleased to present my December 2006 Report to the House of Assembly on work completed by my Office in the second half of 2006.

1.2 In addition to this Report, I have also submitted the following this year:

- My 2005 Performance Report and 2006 Business Plan dated April 3, 2006 were tabled with the Public Accounts Committee on May 3, 2006.
- My first Report on the Estimates of Revenue for the fiscal year ending March 31, 2007, dated May 5, 2006, was included with the Budget Address tabled by the Minister of Finance on May 9, 2006.
- My first Report to the House of Assembly, on work completed by my Office during the first half of 2006, dated June 16, 2006, was tabled on July 26, 2006.
- My second Report on the Estimates of Revenue for the fiscal year ending March 31, 2007, issued subsequent to the election, and dated June 30, 2006, was included with the Budget Address tabled by the Minister of Finance on July 4, 2006.
- My Report on the Province's March 31, 2006 consolidated financial statements, dated July 31, 2006, was tabled with the Public Accounts by the Minister of Finance on September 29, 2006.

1.3 As the Province's Auditor General, my goal is to help provide better government for the people of Nova Scotia. As an independent officer of the House, I provide to the House, and to the public, assurance on, and assessments of, the integrity of government's financial reporting, the use of public funds and the operations and performance of the public sector. I consider the needs of the public and the House, as well as practical realities facing management, in providing sound practical recommendations to improve the management of the public sector.

1.4 My priorities, during my term of office, are: to focus audit efforts on areas of high risk that impact on the lives of Nova Scotians; to contribute to a more effective, efficient and better performing public service for Nova Scotia; and to foster better financial and performance reporting to the Legislature and the people. This report reflects this service approach.

1.5 I wish to acknowledge the valuable efforts of my staff who deserve the credit for the work reported here. As well, I wish to acknowledge the cooperation and

courtesy we received from staff in departments and agencies during the course of our work.

WHO WE ARE AND WHAT WE DO

1.6 The Auditor General is an officer of the Legislature, appointed by the House of Assembly for a ten-year term. He or she is responsible to the House and to the people of Nova Scotia for providing independent and objective assessments of the operations of government, the use of public funds and the integrity of financial and performance reports.

1.7 The Auditor General's mandate, responsibilities and powers are established by the Auditor General Act. The Act stipulates that the Auditor General shall provide an annual report and opinion on the government's financial statements; provide an opinion on the revenue estimates in the government's annual budget address; and report to the House at least once, and up to three times annually, on the work of the Office.

1.8 The Office has a mandate under the Act to audit all parts of the Provincial public sector including government departments and all agencies, boards, commissions or other bodies responsible to the crown, such as Regional School Boards and District Health Authorities. The mandate also includes transfer payment recipients external to the Provincial public sector.

1.9 In its work, the Office of the Auditor General is guided by, and complies with, the professional standards established by the Canadian Institute of Chartered Accountants, otherwise known as Generally Accepted Auditing Standards (GAAS). We also seek guidance from other professional bodies and audit-related best practices in other jurisdictions.

1.10 This Report presents the results of the Office's audits and reviews conducted in 2006 at a number of departments and agencies as well as comments on government financial reporting and our follow-up of audits conducted in 2003. Where appropriate, we make recommendations for improvements to government operations, processes and controls. Where departments or agencies have provided responses, they have been included. We will follow up on the implementation of our recommendations in two years rather than the previous three, with the expectation that significant progress will be made.

1.11 A separate booklet also provides highlights and summaries from this report.

SIGNIFICANT ISSUES AND COMMON THEMES

1.12 In conducting our audits, we sometimes identify issues that may have broader applicability beyond the particular entities in which the issues emerged.

1.13 First, we found, in several audits, deficiencies in the quality or adequacy of information used to measure and monitor operational performance. Good performance information is needed to ensure that public sector entities are achieving their stated objectives. Departments, agencies and boards may wish to review the performance information available to them to ensure that senior management and governing bodies are able to properly fulfill their governance responsibilities.

1.14 Secondly, we noted that deficiencies with respect to management operational information are in some cases being addressed by the development of new information systems. We encourage the timely and cost-effective completion of such projects to provide management with better program information.

EXECUTIVE SUMMARY BY CHAPTER

1.15 The Report presents our findings, conclusions and recommendations resulting from audits and reviews in the following areas. Responses received from auditees have been included in the appropriate chapter.

Chapter 2 Government Financial Reporting

1.16 Significant steps have been taken to move government's consolidated financial statements towards full compliance with Generally Accepted Accounting Principles (GAAP). However, I found it necessary once again to qualify the opinion on the government's revenue estimates in the budget, due to non-compliance with GAAP in some areas and because we were not provided access to certain information required to complete the review. We encourage government to continue its efforts to improve its financial reporting. In particular, the status of the Workers' Compensation Board of Nova Scotia, as it relates to the Province's consolidated financial statements, needs to be clarified.

1.17 As we have reported in prior years, we reiterate our concern regarding the impaired effectiveness of accountability to the House resulting from legislation permitting after-the-fact approval of additional appropriations. As well, we noted a concern with respect to compliance with the Provincial Finance Act for the approval of a significant financial obligation.

Finance and Public Service Commission

Chapter 3 Audit of HR Application Controls in SAP R/3 System

1.18 Our audit of computer application controls in the government's SAP human resources system identified issues of inappropriate access granted to users and inappropriate segregation of certain duties. These issues should be addressed before the system is expanded to additional user groups.

Health

Chapter 4 Review of Systems to Collect Wait Time Information

1.19 The Department of Health requested that our Office review the accuracy, completeness and reliability of some of the information on the Province's wait times website. We reviewed the systems supporting production of three wait times with mixed results. In some cases the systems were adequate, while other systems required improvement.

Justice

Chapter 5 Correctional Services

1.20 Performance information currently available is inadequate to assess the efficiency and effectiveness of Correctional Services programs and services. Our audit also identified a need to improve compliance with policies and procedures in several areas, notably in monitoring and enforcing community-based sentences and admittance and release policies for intermittent sentences. We could not conclude on compliance with policies and procedures relating to conditional releases due to insufficient documentation by the Department.

Transportation and Public Works

Chapter 6 Planning and Management of Highway Projects

1.21 The Department has determined that annual funding for capital highway projects is currently insufficient to meet the Province's long-term highway transportation system needs. Accordingly, the Department has established prioritization processes to select highway projects. However, processes and information used by the Department are not sufficient to ensure that optimal projects are selected. We also found improvements were needed in long-range planning, data collection related to highway projects, and project management.

Follow-ups

Chapter 7 Follow up of 2003 Audits

1.22 Only 48% of the recommendations made in our 2003 Report have been implemented, with a further 34% described as in progress. Three years have elapsed since that Report was issued and progress has been slow.

Other

Chapter 8 Review of Financial Statements and Management Letters

1.23 Each year my Office reviews the auditors' reports and management letters issued to crown corporations and agencies by their financial statement auditors. Summary

information on the reported results of those audits that may be of interest to the House is provided in this chapter.

Government Financial Reporting

2 GOVERNMENT FINANCIAL REPORTING

BACKGROUND

2.1 Members of the Legislative Assembly need adequate information on the Province's financial plans, performance and condition to hold government accountable for its use and control of public funds and resources.

2.2 The Minister and Deputy Minister of Finance are assigned various authorities and responsibilities related to the role of a chief financial officer for the Province under the provisions of the Provincial Finance Act including a number of financial reporting requirements.

2.3 Further, Section 73 of the Provincial Finance Act requires that crown corporations' business plans, audited financial statements and proposed public financing be tabled in the House of Assembly each year.

2.4 As a foreign registrant of the Securities and Exchange Commission in the United States, or its equivalent in other countries, government must file required documents in order to be able to access financing or financial markets.

2.5 In addition to required financial reporting, government may and periodically does, at its discretion, publicly release other financial information or reports.

2.6 For the Province's financial reporting, oversight responsibility rests, to a significant extent, with the Executive Council. In addition, the House of Assembly, including its Public Accounts Committee, has an important role in the oversight and public accountability processes for the Province's financial reports issued by government.

CHAPTER OBJECTIVES

2.7 The Auditor General Act provides a broad mandate for the Office to examine and report on the use and control of public resources by government, its controlled entities, and recipients of financial assistance. Further, Sections 9 and 9B of that Act provide for specific annual reporting by the Auditor General on the Province's consolidated financial statements (an audit, with high assurance) and government's revenue estimates (a review, with moderate assurance).

2.8 The annual financial statements of various crown entities and trusts, depending on statutory or other arrangements, are audited and reported upon by either the Auditor General or a public accounting firm. We consider the results of those financial statement audits, as well as other government financial reporting, where appropriate, during the conduct of the Office's discretionary broad scope assignments in selected areas each year.

2.9 The Auditor General's opinion on the 2006-07 revenue estimates, required under Section 9B of the Auditor General Act, was tabled in the House of Assembly on May 9, 2006 along with the government's budget documents. The results of our examination of those revenue estimates were reported in Chapter 2 of the June 2006 Report of the Auditor General. A general election was called before the 2006-07 budget tabled on May 9, 2006 was approved by the House. As a result, another 2006-07 budget was tabled on July 4, 2006.

2.10 The purpose of this chapter is to provide summary comments and observations on the government's financial reporting including:

- information on the results of our review of the government's 2006-07 revenue estimates included in the July 4, 2006 budget documents; and
- the results of our audit of the Province's March 31, 2006 consolidated financial statements.

RESULTS IN BRIEF

2.11 The following summarizes our principal observations in this chapter.

- The Auditor General's opinion on the 2006-07 revenue estimates, required under Section 9B of the Auditor General Act, was tabled in the House of Assembly on July 4, 2006 along with the government's budget documents. Consistent with the opinion on the May 9, 2006 revenue estimates, it included reservations of opinion related to scope limitations and non-compliance with generally accepted accounting prinicples (GAAP).
- The Auditor General's audit report on the Province's March 31, 2006 consolidated financial statements was unqualified. It was tabled September 29, 2006 as part of the March 31, 2006 Public Accounts. A management letter on this year's audit will be issued to government in December 2006 which will include other findings and issues from the audit.
- Significant steps have been taken to move government's consolidated financial statements to full compliance with GAAP. We encourage government to continue its efforts to achieve full compliance with GAAP for both the financial statements and budget.
- Additional appropriations of $110,761,000 for 2005-06 expenses were approved on September 29, 2006 by Order in Council (OIC) 2006-413. A special warrant for $325,537,000 was approved by OIC 2006-263 on June 22, 2006.
- Current legislation impairs the effectiveness of control over changes to spending authority for public funds because it allows for after-the-fact approval of additional spending authority. As well, effective control and accountability to the House of Assembly for spending authority limits are impaired. For

example, there was no debate in the House of Assembly concerning the funding of March 2006 spending initiatives which resulted in approximately $42 million in additional appropriations.

- Two concerns relating to compliance with the Provincial Finance Act were identified during our work on the consolidated financial statements. The first was a result of inconsistencies in the Act concerning overspending of appropriations. The second was government's undertaking to provide a level of financial commitment to the 2014 Commonwealth Games which was communicated to the Halifax 2014 Commonwealth Games Bid Committee prior to the required review and approval.

- During our audit of the consolidated financial statements and review of the revenue estimates, we were not provided access to certain information we requested. We have recommended that government work with our Office to clarify the boundaries of access to information under the Auditor General Act.

PRINCIPAL FINDINGS

Results of Review of Government's Estimates of Revenue

2.12 The Auditor General's Report on the 2006-07 Revenue Estimates, required under Section 9B of the Auditor General Act, was tabled in the House on July 4, 2006 along with supporting information for the 2006-07 Nova Scotia budget. Exhibit 2.1 on page xx is a copy of the Report. The opinion was qualified for the following:

- First, we were not able to obtain sufficient appropriate information to complete a review of recoveries, user fees and revenues of certain governmental units. In addition, information related to HST reductions on home heating fuel and electricity was not made available for our review. As a result of these scope limitations, the Auditor General was unable to form an opinion as to the reasonableness of the estimates of these revenues or the support for their underlying assumptions.

- Further, sinking fund earnings and revenues of certain governmental units were excluded from the revenue estimates and included elsewhere in the estimates. As a result, the revenue estimates were not presented on a basis consistent with the Province's consolidated financial statements. In addition, certain recoveries and user fees as well as HST rebates on home heating fuel and electricity were excluded from the revenue estimates and netted against expenses elsewhere in the estimates. To the extent of these exclusions, the 2006-07 revenue estimates are not presented in accordance with generally accepted accounting principles (GAAP).

2.13 A more detailed reporting of the results and observations from our examination of government's 2006-07 revenue estimates included in the July 4, 2006 budget

documents was provided to the Department of Finance in a July 20, 2006 management letter.

2.14 The management letter discusses a number of other issues and findings from our review. For example, we did not agree with the decision to exclude any estimate for revenues from offshore licence forfeitures in 2006-07.

2.15 For purposes of the review, one new accounting standard needed to be considered: Public Sector Accounting Board Handbook (PSAB) Section 1150, *Generally Accepted Accounting Principles (GAAP)*. The section provides direction on the primary and secondary sources of reference in determining GAAP compliance (i.e., a GAAP hierarchy) for the public sector in Canada. This standard now restricts the options available for preparation of financial information on other than a GAAP-compliant basis.

2.16 To ensure compliance with current requirements of PSAB and with generally accepted auditing standards, our review was planned to include all revenue elements in the 2006-07 budget that meet the definition of revenues under GAAP. In comparison to our previous year's review, we estimated that additional elements included this year represented more than $1 billion. Our additional information requirements were communicated to the Department of Finance in February 2006. Difficulties encountered in obtaining sufficient information to assess the reasonableness of some revenues and the support for their underlying assumptions led to a qualification in our Report on the Estimates of Revenue. The continued presentation of some revenues on a basis not compliant with current GAAP standards, such as netting against expenses, also led to a qualification in the Report.

2.17 In our June Report, as well as the previous report, we recommended that the revenue estimates included in the budget be prepared and presented in full accordance with generally accepted accounting principles. Management has indicated that they intend to work towards improving the budget presentation to make it more consistent with GAAP requirements and to improve the accessibility of materials required by this Office to perform the annual review of revenue estimates.

Results of the Audit of Province's Consolidated Financial Statements

2.18 Under Section 9 of the Auditor General Act, the Auditor General is mandated to examine and report on the Province's consolidated financial statements which are the responsibility of government, represented primarily by the Minister of Finance.

2.19 Government tabled and released the Province's March 31, 2006 consolidated financial statements on September 29, 2006 as part of Volume 1 of the Public Accounts. The Auditor General's opinion on those statements was unqualified.

2.20 Professional standards require that an auditor make arrangements for a pre-release general review of any information or other documents to be released concurrently, or in combination with, financial statements upon which the auditor has or will be

reporting. We read, but did not audit, the information in the Financial Statement Discussion and Analysis section of Volume 1 of the March 31, 2006 Public Accounts.

GAAP compliance

2.21 The June 2006 Report of the Auditor General identified certain areas in which the Province's consolidated financial statements were not yet fully in compliance with GAAP, and recommended that steps be taken to ensure fuller compliance. We are pleased to acknowledge that significant steps have been taken to address many of these areas as described below. We encourage government to continue in their efforts to more fully comply with GAAP.

- Previously, the consolidated financial statements did not include budget amounts for the line items on the Statement of Operations and Accumulated Deficits or the Statement of Change in Net Direct Debt as required by GAAP. For the 2005-06 statements, budget amounts were included on the Statement of Operations and Accumulated Deficits. There is still a need to include budget information on the Statement of Change in Net Direct Debt.

- PSAB requires that expenses be disclosed at gross value. In past years, various user fees, chargeables and recoveries were netted against expenses on the Consolidated Statement of Operations and Accumulated Deficits. This also included federal transfer payment revenues which were recorded as recoveries. For the 2005-06 consolidated financial statements, user fees, chargeables and recovery account balances were more properly recorded as revenue rather than being netted against expenses. We understand from discussions with management that there are further revenue amounts which are netted directly against expense accounts. It was indicated to us that an analysis will be completed during 2006-07 to ensure these amounts are properly reflected in the March 31, 2007 statements.

- Previously, a number of smaller crown entities and government partnership arrangements were not consolidated as required by GAAP. For 2005-06, all crown entities were consolidated, and where there was agreement as to the existence of a Government Partnership Arrangement, they were also consolidated. For one entity, there is disagreement between the Department of Finance and the Office of the Auditor General as to whether it is a Government Partnership Arrangement. This matter will be subject to further consideration during next year's audit.

- GAAP requires that, as part of the consolidation process, the accounting for government organizations (other than government business enterprises) be adjusted to be consistent with the government's accounting policies. In previous years and again this year, when consolidating the tangible capital assets (TCA) balances of entities included in the consolidated financial statements, those balances were not adjusted to comply with the government's TCA accounting policy requirements for such factors as thresholds and

amortization rates. This issue would not be as significant if the TCA thresholds of the Province were lower.

- We have had a concern with the high level of the TCA thresholds for some time. Our concern is that there could be a material balance of transactions related to the acquisition of TCA, as defined by GAAP, which are expensed rather than capitalized since the balances fall below the government's threshold for capitalization. GAAP requires that accounting policies of consolidated entities be consistent with those of government. Adjusting the TCA thresholds of all entities consolidated to the Province's thresholds would reduce the amount of TCA balances which would be capitalized. Because of the high TCA threshold limits of the Province, compliance with this GAAP requirement could actually impair the fair presentation of the TCA balances on the consolidated financial statements. There is a need to further research and review the Province's TCA threshold limits to ensure they allow for the fair and consistent presentation of the TCA balance on the consolidated financial statements.

2.22 A new issue concerning GAAP compliance which arose during this year's audit was the proper accounting treatment of the Workers' Compensation Board (WCB) in the consolidated financial statements. Historically, this entity has been included as a trust in the financial statements. During the 2004-05 audit, we raised the question of whether it really is a trust and communicated the need to obtain a legal opinion on this issue. In 2006, government obtained a draft legal opinion which indicated that WCB is not a trust. Our Office's view has always been that if WCB is not a trust, it should be considered as part of the reporting entity which would require consolidation of its operations. There is information available which suggests that WCB is controlled by government and thus should be consolidated. The Department of Finance has indicated that it will be researching this issue and that WCB will be appropriately reflected in the 2006-07 consolidated financial statements based upon the results of that research. For the 2005-06 consolidated financial statements, WCB has been noted as a *Trust-Like Fund under Administration* because it is clear that it is not a trust as previously reported. The government needs to analyze this issue in detail to determine appropriate disclosure and ensure the WCB is properly accounted for in accordance with GAAP.

Recommendation 2.1

We recommend that government complete a detailed analysis of the appropriate accounting treatment for the WCB, and ensure full compliance with GAAP in the 2006-07 and future financial statements.

2.23 Accounting standards and pronouncements that comprise GAAP continue to evolve. There are new accounting pronouncements and some in process that will have an impact on the government's future financial reporting. For example, the following are significant matters on which PSAB has recently released final or revised pronouncements or is developing new or revised pronouncements:

- tangible capital assets;
- tax revenues;
- government transfers; and
- financial instruments.

2.24 New formal recommendations or guidance in such areas could require changes to government's financial reporting in the future. Further, government should disclose the nature and impact of required or planned accounting changes as soon as practical, ideally no later than during the presentation of the budget for the fiscal year in which the changes will take effect.

Systems and controls

2.25 We obtained a sufficient understanding of the systems and controls to plan the audit. Where we relied upon controls, sufficient audit evidence was obtained to support that assessment. However, the scope of our review of government's systems and controls during the audit of the March 31, 2006 consolidated financial statements was not planned or conducted in order to conclude on the adequacy of the overall level or quality of controls.

2.26 While conducting the financial statement audit, areas were identified where internal controls could be strengthened or operating improvements achieved. Certain matters identified during the current year have implications which warrant government's consideration. These have been communicated to Finance as part of a management letter. As part of the audit of the Province's March 31, 2007 consolidated financial statements, we will follow up on these matters to determine the status of actions taken or planned.

2.27 In relation to the internal controls of the crown corporations and agencies consolidated in the Province's financial statement reporting entity, we have relied on the audit work of public accounting firms appointed to report on the financial statements of those entities. Chapter 8 of this Report includes information on selected weaknesses in internal controls which were reported to those entities by their auditors.

Management letter

2.28 In December 2006, a management letter will be issued to government providing various observations from our audit of the Province's March 31, 2006 consolidated financial statements. The following are the more significant observations which have not already been included in other parts of this chapter.

- Government's preparation of the Province's consolidated financial statements requires the use of significant accounting estimates, certain of which are particularly sensitive to differences between future actual results and government's assumptions upon which the accounting estimates were based. At the conclusion of this year's audit, there were no significant outstanding concerns with the estimates used in preparing the March 31, 2006 consolidated financial statements.

- During the audit of the March 31, 2006 consolidated financial statements, a number of accounting, disclosure and audit issues arose, and were communicated to government staff at various points in the audit process. Some, but not all, of these were resolved either by review of additional information provided or by adjustments to the financial statements.

- With regard to the Province's consolidated financial statements and other government financial reporting, it is appropriate for all known errors or identified misstatements to be corrected, other than trivial ones. However, each year a number of residual issues remain at the conclusion of the audit. These were considered when preparing the Auditor's Report on whether the statements are presented fairly in accordance with GAAP.

- A key control for ensuring reliable financial reporting and safeguarding of resources is the existence of documented policies and the effective communication of those policies. In February 2003, updated government Management Manuals were released on the Treasury and Policy Board website. These manuals include some, but not all, relevant policies. Government Accounting staff have acknowledged the need and intention to further develop and enhance government's financial management and accounting policies. However, only one new policy has been added to the manuals since they were released. We understand that there are some draft policies, as well as amendments to existing policies to bring them up to date, which are awaiting approval. We reiterate the need to develop a defined plan and schedule to ensure the government management manuals are updated, to include all relevant financial and accounting policies, in a timely manner.

Planned accounting considerations

2.29 The June 2006 Auditor General's Report identified some specific accounting considerations to address during the completion of the March 31, 2006 audit of the consolidated financial statements (see Chapter 2 paragraph 2.31 of that Report). The following provides information on the results of our consideration of these items:

- We reviewed supporting information on the accounting for various spending initiatives approved by Treasury and Policy Board in March 2006. See paragraph 2.35 for further discussions concerning these spending initiatives.

- There were no accounting or disclosure issues identified for the various federal transfers, initially recorded as deferred revenue, or for related expenses incurred. See paragraph 2.40 for information on some of the funds involved.

- Our Office and Finance management disagree on the accounting treatment of the removal of the Provincial guarantee related to the Nova Scotia Teachers' Pension Plan as a result of the June 22, 2005 agreement between the Nova Scotia Teachers' Union and government. We believe the change is a plan amendment. Management disagrees with our position. The required accounting treatment depends on the classification of the change. The impact

of this matter has been considered in reaching our opinion of the financial statements.

Other Matters

Additional appropriations and special warrants

2.30 Section 9A of the Auditor General Act requires, among other things, that we call attention to every case observed in which any appropriation is exceeded or a special warrant is authorized. Our last reporting under that section was in the June 2006 Report of the Auditor General, Chapter 2.

2.31 Under the provision of Section 28 of the Provincial Finance Act, on September 29, 2006 Executive Council approved OIC 2006-413 approving additional appropriations for 2005-06 of $94,777,179 for net program expenses, $5,614,938 for the pension valuation adjustment and $10,369,085 for capital purchase requirements. The original approved appropriations for 16 votes had been exceeded.

2.32 While it may be too early to determine the additional spending authority ultimately required for the 2006-07 votes, information included in the government's Forecast Update dated September 8, 2006 indicated that the voted appropriation in one department was forecasted to be exceeded.

2.33 An issue we have raised on numerous occasions in previous reports which continues to be a concern is that current legislation impairs the effectiveness of control over changes to spending authority for public funds because it allows for after-the-fact approval of additional spending authority. As well, effective control and accountability to the House of Assembly for expenses in excess of original spending authority limits are impaired as no debate is required in the House of Assembly for additional appropriations approved by the government. This would include approximately $42 million in year end spending initiatives discussed further in paragraph 2.35.

2.34 We note that one special warrant was approved by Executive Council (OIC 2006-263) under Section 29 of the Provincial Finance Act for $325,537,000 on June 22, 2006. The warrant was required to defray charges and expenses for the fiscal year ending March 31, 2007 prior to the approval of the appropriations for that fiscal year by the House of Assembly.

Compliance with the Provincial Finance Act

2.35 The following two instances of non-compliance with the Provincial Finance Act were identified during the audit of the March 31, 2006 consolidated financial statements.

- As part of our audit of the consolidated financial statements, we requested information about any contractual obligations of the Province. This year, we

specifically inquired as to the existence of a financial obligation related to the 2014 Commonwealth Games bid. It was indicated to us, by various staff throughout government, that there was no financial obligation related to the Games. Late in the audit process, a letter dated November 28, 2005 and signed by a member of Executive Council was discovered and brought to our attention by staff. This letter, to the Chair of the Halifax 2014 Commonwealth Games Bid Committee, communicated the Province's intention to provide a level of financial commitment to the Games.

According to Section 59C of the Provincial Finance Act, all intended financial obligations of the Province must be communicated to the Minister of Finance along with specific information, including a request for authorization of the financial obligation. The Minister of Finance must then forward the request, along with specified information, to the Governor in Council for authorization. The external communication of the intention of the Province to provide a level of financial commitment for the 2014 Commonwealth Games did not comply with Section 59C of the Provincial Finance Act. It is our understanding that the undertaking communicated in the November 28, 2005 letter was not communicated to the Minister of Finance and was not authorized by OIC.

- In March 2006, Treasury and Policy Board approved approximately $45 million of grants to various entities. Most of these grants were paid out in the last few days of March 2006 and were recorded as 2005-06 expenses. The recording of these expenses resulted in appropriations of government being exceeded by approximately $42 million. According to Section 13 of the Provincial Finance Act, before a cheque can be issued, a sufficient balance must be available in the appropriation for the specified purpose and, where an appropriation is exhausted, no further contractual obligations or commitments may be charged to the exhausted appropriation. As a result, neither the payment of these amounts, nor the recording of the liabilities in 2005-06, is in compliance with Section 13 of the Provincial Finance Act.

  However, Section 28 of the Provincial Finance Act allows up to ninety days after the tabling of the Public Accounts for the approval of additional appropriations related to the appropriations in the Public Accounts. This is not consistent with Section 13 of the Act.

Recommendation 2.2

We recommend that the Provincial Finance Act be amended to eliminate the existing inconsistency related to additional appropriations and steps be taken to ensure all actions taken by government are in compliance with the requirements of the Act.

Access to Information

2.36 While completing our work on the 2006-07 revenue estimates and the 2005-06 consolidated financial statements, we were not provided access to certain information requested.

2.37 With the review of the revenue estimates, this resulted in a qualification of the opinion. With the financial statement audit, as a result of alternative audit procedures completed, the restrictions to information were not significant enough to warrant a reservation due to scope limitation.

2.38 There were instances where we were allowed to see information requested but were not allowed to make a photocopy as audit support for our files. In these instances, we had to manually reproduce the information in order to have support for our work in the audit file.

Recommendation 2.3

We recommend that Treasury and Policy Board and the Department of Finance work with the Office of the Auditor General to clarify the boundaries, both in substance and form, of the access to information allowed under the Auditor General Act.

Review of financial reports

2.39 The Department of Finance has previously indicated its intention to complete a review of its primary financial reporting vehicles to determine potential improvements. Little progress had been made as of the June 2006 Report of the Auditor General. We are pleased to note that the terms of reference for this initiative have since been approved and progress is being made on this project. We continue to support the government's plans to review the content of its financial reports for improvements. We noted that one requirement of the project is that the resulting content of the Public Accounts be in compliance with GAAP. Such a requirement should apply to the government's budget documents as well.

Deferred revenue

2.40 In the past few years, the Province has received significant federal government transfer payments to be used for specific purposes. The federal government placed no time constraints on when some of the funds must be used. The funds are initially recorded as deferred revenue and recognized as revenue when eligible expenses are incurred. The following table provides information concerning the funds received to date where the Province has control over the timing of expenditures, and the unspent balances remaining as of March 31, 2006. The unspent amounts have not yet been recognized as revenue because the eligible expenses have not yet been incurred.

Fund	Amount Received as Deferred Revenue	Date	Revenue Recognized 2003-04	Revenue Recognized 2004-05	Revenue Recognized 2005-06	Balance Remaining at March 31/06
Diagnostic and Medical Equipment	$44,808,135 14,678,232 59,486,367	2003-04 2004-05	$4,381,705	$12,013,798	$13,287,524	$29,803,340
Public Health and Immunization	11,680,106	2004-05	-	2,333,131	3,402,947	5,944,028
Wait Time Reduction	122,660,075	2004-05	-	18,347,788	18,201,160	86,111,127
Additional Early Learning and Childcare	20,432,221	2005-06	-	-	-	20,432,221

Note: The table only includes funds in deferred revenue at March 31, 2006 where there are significant balances remaining of the initial funds received.

2.41 In order to ensure adequate accountability to the House of Assembly for these funds, consideration should be given to determining the information requirements, if any, of the House of Assembly concerning the plans for and use of these funds.

Cash and Other Losses

2.42 Section 9A (1) (e) of the Auditor General Act requires that we report every case in which we have observed that "... there has been a deficiency or loss through fraud, default, or mistake of any person".

2.43 The Nova Scotia Management Manuals no longer contain a requirement for departments and crown entities to report losses to this Office. However, some departments have reported the following losses to us for 2005-06. The list below may not include all losses; just the ones reported to our Office.

Departments	Cash	Property	Total
Justice (1)	$1,799	-	$1,799
Service Nova Scotia and Municipal Relations	199	-	199
Office of Aboriginal Affairs	50	-	50
Environment and Labour	-	719	719
Office of the Auditor General	-	80	80
Total	$2,048	$799	$2,847

(1) Includes $591 cash loss incurred in a prior period.

2.44 In addition, government's Internal Audit and Risk Management Centre conducted an investigation at the Department of Justice which identified $6,493 in cash losses. There are other possible losses being investigated by government's Internal Audit and Risk Management Centre but the reports on the assignments were outstanding at the time this Report was written.

CONCLUDING REMARKS

2.45 We noted in the June 2006 Report of the Auditor General that improvements were required in government's financial reporting to bring the government's budget and the Province's consolidated financial statements fully into compliance with GAAP. Significant steps have been taken, since that Report, to address areas in which the Province's consolidated financial statements were not fully in compliance with GAAP. We encourage government to continue efforts to make the financial statements more fully GAAP-compliant and reemphasize the need to bring government's budget fully into compliance with GAAP as well.

Report of the Auditor General to the House of Assembly on the Estimates of Revenue for the fiscal year ending March 31, 2007 used in the preparation of the July 4, 2006 Budget Address

Exhibit 2.1

I am required by Section 9B of the Auditor General Act to provide an opinion on the rea onableness of the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly. I had previously reported on the 2006-07 estimates of revenue used in the preparation of the May 9, 2006 Budget Address. That reporting, dated May 5, 2006, included a reservation of opinion.

The estimates of revenue for the fiscal year ending March 31, 2007 (the 2006-07 revenue estimates) are the responsibility of the Department of Finance and have been prepared by departmental management using assumptions with an effective date of June 8, 2006. I have examined the support provided by departmental management for the assumptions and the preparation and presentation of the 2006-07 revenue estimates. My examination did not include, and my opinion does not cover, the budget speech, the 2005-06 forecast or the 2006-07 expense estimates. Except as explained in the following paragraph, my examination was made in accordance with the applicable Assurance and Related Services Guideline issued by the Canadian Institute of Chartered Accountants. I have no responsibility to update this report for events and circumstances occurring after the date of my report.

I was not able to obtain sufficient appropriate information to complete my review of recoveries, user fees and revenues of certain governmental units. In addition, information related to HST reductions on home heating fuel and electricity was not made available for my review. As a result, I have been unable to form an opinion as to the reasonableness of the estimates of these revenues or the support for their underlying assumptions.

Further, sinking fund earnings and revenues of certain governmental units are excluded from the revenue estimates and are included elsewhere in the estimates. As a result, the revenue estimates are not presented on a basis consistent with the consolidated financial statements. In addition, certain recoveries and user fees as well as HST rebates on home heating fuel and electricity are excluded from the revenue estimates and netted against expenses elsewhere in the estimates. To the extent of these exclusions, the 2006-07 revenue estimates are not presented in accordance with generally accepted accounting principles.

In my opinion, except that certain revenues have been excluded from the revenue estimates as noted in the preceding paragraph, and except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to obtain sufficient information with respect to certain revenues, as discussed above,

- As at the date of this report, the assumptions used by departmental management are suitably supported and consistent with the plans of the government, as described to us by departmental management, and provide a reasonable basis for the 2006-07 revenue estimates; and
- The 2006-07 revenue estimates as presented reflect fairly such assumptions; and
- The 2006-07 revenue estimates comply with presentation and disclosure standards established by the Canadian Institute of Chartered Accountants.

Since the 2006-07 revenue estimates are based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly I express no opinion as to whether the revenue estimates will be achieved.

Jacques R. Lapointe, CA•CIA
Auditor General

Halifax, Nova Scotia
June 30, 2006

DEPARTMENT OF FINANCE'S RESPONSE

Thank you for the opportunity to provide a management response to Chapter 2 of the December 2006 Report of the Auditor General. This chapter primarily deals with the revenue review of the 2006/07 Estimates and the audit of the 2005/06 Public Accounts. It should be noted that in preparing the response to this Chapter, Management has only recently received a draft management letter to the audit of 2005/06 Public Accounts and has not yet had the opportunity to meet with the staff of the Office of the Auditor General to discuss the content of the draft management letter. We request that in future years the management letter be provided shortly after the conclusion of the audit of the Public Accounts and well in advance of the December Report.

Review of Revenue Estimate

As indicated in our response to the management letter regarding the review of revenue, the Department feels the broader scope of this year's review is not in keeping with the intent of Section 9B of the Auditor General Act. The inclusion of revenue of certain consolidated government units (such as School Boards and District Health Authorities) in this review creates practical challenges given the time lines of the review and budgeting methodology of the Province. As well, the inclusion of recoveries and user fees in the review of revenue would require the Office of the Auditor General to make a reasonable determination of certain program expense estimates. Not only does this go beyond the intent of Section 9B of the Auditor General Act, it is inappropriate for the Office of the Auditor General to form an opinion on program expense estimates. Management accepts that certain revenue items such as recoveries and user fees, sinking fund earnings and HST home heating rebates have been netted against expenses which is inconsistent with GAAP. This presentation format, however, has no impact on the reported surplus of the Province. Management changed this practice for the 2005/06 Public Accounts and will introduce changes in the 2007/08 Estimate.

Management will also work with the Office of the Auditor General on the protocols for the revenue review but an examination of expense estimates will not be a part of the review. As in previous years, the revenue of consolidated government units will not be included in the information provided for the revenue review.

Under the Province's revenue recognition policy, offshore licenses forfeitures revenue will be recognized when Notice of Forfeiture is provided. This same policy is used for budget development. Given the fluctuating nature of this revenue, any inclusion of forfeiture revenues in the budget based on historical trends or any other estimating tool, would not be prudent and could lead to inappropriate budget decisions.

Audit of the Consolidated Financial Statements

We are pleased that the Office of the Auditor General acknowledged our progress to ensure further compliance with GAAP. We anticipate additional improvement for the 2006/07 Public Accounts.

The Office of the Auditor General concludes there is one government partnership that was not consolidated. This is in reference to Canadian Blood Service (CBS), for which management has assessed that no partnership arrangement exists with this organization. This position is consistent with most other provinces that have their blood services managed by CBS. It should be noted that the exclusion of CBS in the consolidated process has no material impact to the financial statements of the Province nor has it created a qualification to the audit opinion provided by the Office of the Auditor General.

GAAP require that TCA policies, including thresholds, be appropriate for the entity in question. Given the diverse nature and size of all entities within the Government Reporting Entity (GRE), it would not be appropriate to have a uniform TCA policy for all, or to adjust the balances of consolidated entities to the Province's policy upon consolidation. Management has decided to review certain thresholds to ensure they remain appropriate.

Management agrees that the proper accounting treatment for WCB needs to be resolved. While the WCB may not presently be a legal trust, Management's control assessment concluded that the WCB should not be included in the GRE. The Office of the Auditor General does not agree with this assessment but agreed that further research on this issue is warranted. Management commits to work with the Office of the Auditor General on this research and conclude the analysis by March 31, 2007.

Provincial Finance Act

The Province's support letter to the Halifax 2014 Commonwealth Games Bid Committee was necessary to complete the bid proposal to be selected as Canada's proposed site for the 2014 Commonwealth Games. The financial obligation implications of the letter were not appreciated by the authors at the time, so the omission of seeking Section 59C approval was an innocent oversight. It should be noted that the disclosure requirement of this letter, as a contingent liability, was properly included in the 2005/06 Public Accounts.

Management believes that the only proper accounting treatment for the March, 2006 grants was to record the grants as 2005/06 expenses. In fact, since the decision was made by Treasury & Policy

Board, authorized under Section 28 of the Provincial Finance Act and the recipients were informed of the decision, the Province had no discretion but to treat the grants as liabilities for 2005/06. Management does agree that there are inconsistencies between Section 13 and Section 28 of the Provincial Finance Act. The Office of the Auditor General's Report acknowledges that under Section 28 of the Provincial Finance Act approval for additional appropriations can be obtained up to ninety days after the tabling of the Public Accounts. In the case of these grants, additional appropriations were obtained on September 29, 2006 which provided the authorization under the Provincial Finance Act to make these payments and record the liability in 2005/06.

Thank you again for the opportunity to provide these comments. I look forward to continuing to work with the Office of the Auditor General to improve the Province's financial reporting.

Department Audits

FINANCE AND PUBLIC SERVICE COMMISSION

3 AUDIT OF HR APPLICATION CONTROLS IN SAP R/3 SYSTEM

BACKGROUND

3.1 The Province of Nova Scotia implemented SAP R/3 as its corporate financial management and reporting system in April 1997. At that time the Province already had a separate human resources system so the human resources (HR) component of SAP R/3 was not implemented. In April 2005 the Province implemented the HR module of SAP R/3 to replace the former HR system.

3.2 In June 2006, the Office of the Auditor General, in partnership with the Department of Finance and the Public Service Commission, contracted with a public accounting firm to perform an audit of the HR application controls in government's SAP R/3 system.

RESULTS IN BRIEF

3.3 The auditors of the application controls in the government's SAP HR system reported the following conclusions.

> - *"Generally speaking, our review indicated that the SAP HR application module is configured to include the appropriate controls over transaction accuracy, validity and completeness; however, some weaknesses have been identified and recommendations for improvement have been provided in our Letter of Recommendations.*
>
> - *Given the level of access granted to users within SAP, however, including the number of users who have access to execute incompatible functions within SAP, we conclude that HR SAP-based application controls were not operating effectively throughout the period of anticipated reliance and therefore recommend that they not be relied upon for purposes of the annual audit."*

AUDIT SCOPE

3.4 Application controls relate to the actual processing of business transactions and data of a specific application, in this case the HR module. The objectives of application controls are to ensure the completeness, accuracy and authorization of processing and the adequacy of management trails.

3.5 In contrast to application controls, general controls relate to the technology environment within which computer applications are developed, maintained and operated. The objectives of general controls are to ensure the proper development and implementation of applications, and the integrity of program and data files and computer operations.

3.6 The audit objectives for this assignment were:

- to identify SAP HR application controls and SAP HR application control weaknesses; and

- to conclude on whether the identified SAP HR application controls were operating effectively throughout the period of anticipated reliance.

3.7 The period covered by this audit was April 1, 2005 to March 31, 2006.

3.8 The scope of the audit focussed on the controls within the HR module including the five sub-modules – Personnel Administration, Organizational Management, Benefits, Time Management and Payroll. The audit coverage also included significant system interfaces between the SAP HR module and other government systems. The audit excluded general controls which were tested separately as part of the CICA Handbook Section 5900 audit for which a qualified opinion was earlier provided on April 6, 2006. (See Exhibit 3.1 of the June 2006 Report of the Auditor General.)

PRINCIPAL FINDINGS

3.9 In June 2006 a public accounting firm was contracted to perform an audit of the HR application controls within the government's SAP R/3 system. The HR module was implemented in April 2005. This was the first audit of controls of the HR module and covered the first fiscal year of its operation.

3.10 The following conclusions were reported by the auditors in their letter dated July 28, 2006 (see Exhibit 3.1).

> "....Our conclusion on the reliability of SAP-based business process controls is as follows:
>
> - Generally speaking, our review indicated that the SAP HR application module is configured to include the appropriate controls over transaction accuracy, validity and completeness; however, some weaknesses have been identified and recommendations for improvement have been provided in our Letter of Recommendations.
>
> - Given the level of access granted to users within SAP, however, including the number of users who have access to execute incompatible functions within SAP, we conclude that HR SAP-based application controls were not operating effectively throughout the period of anticipated reliance and therefore recommend that they not be relied upon for purposes of the annual audit."

3.11 As noted in the above conclusion, the level of inappropriate access granted to users of SAP HR was the primary reason the auditors could not conclude positively on the HR application-based controls.

3.12 The auditors identified a total of nine areas of weakness in application controls and categorized them as follows:

- High Risk 3
- Moderate Risk 5
- Low Risk 1

3.13 The most significant areas of control weaknesses reported by the auditors are consistent with similar weaknesses we reported in June 2006 relating to other SAP audits performed earlier in the year. (See Chapter 3 of the June 2006 Report of the Auditor General). These relate primarily to many users having been granted levels of access to the system in excess of those required to perform their assigned duties. Many instances of inappropriate segregation of certain duties were also identified which increase the risk of unauthorized payments, misappropriation of funds or undetected errors in payroll.

3.14 The nature of the weaknesses identified by this audit raise concerns as to whether sufficient focus was placed on security requirements during the implementation of the HR module.

3.15 Management at both the Department of Finance and the Public Service Commission have been very supportive in partnering with us to sponsor this audit and have also expressed their commitment to address the reported weaknesses.

Recommendation 3.1

We recommend that management implement appropriate controls to resolve the reported weaknesses in HR application controls in the SAP R/3 system.

CONCLUDING REMARKS

3.16 Government's challenge with respect to controls is to ensure that the risks of loss or misuse are appropriately identified and that decisions made about the level of control appropriately mitigate risks on a cost-benefit basis. The goal is not more or too many controls, but rather cost-effective optimization of control against risks.

3.17 A government-sponsored project currently is underway to implement the HR component of SAP R/3 for the Nova Scotia Regional School Boards. The results of this audit, including all the specific instances of noted weaknesses, should be taken into account to ensure that the same weaknesses are not implemented in the school boards' HR system.

Auditor's Report on HR Application Controls

Exhibit 3.1

We have now concluded our engagement in connection with the audit of HR application controls in the Province of Nova Scotia's SAP system as per the above noted contract and related statement of work. Our conclusion on the reliability of SAP-based business process controls is as follows:

- Generally speaking, our review indicated that the SAP HR application module is configured to include the appropriate controls over transaction accuracy, validity and completeness; however, some weaknesses have been identified and recommendations for improvement have been provided in our Letter of Recommendations.

- Given the level of access granted to users within SAP, however, including the number of users who have access to execute incompatible functions within SAP, we conclude that HR SAP-based application controls were not operating effectively throughout the period of anticipated reliance and therefore recommend that they not be reiied upon for purposes of the annual audit.

- We recommend that the OAG identify, test and evaluate compensating controls and procedures that are not reliant upon the SAP application or modules, before a control reliance approach should be taken. Further details on recommended controls to test outside the system have been provided in the working paper file provided to you as part of the audit.

We are pleased to enclose our Final Summary Presentation and Final Letter of Recommendations in connection with this audit. If you have any questions, please do not hesitate to contact us.

PUBLIC SERVICE COMMISSION'S RESPONSE

The Public Service Commission would like to thank the Auditor General for the opportunity to provide comments on Chapter 3, Audit of HR Application Controls in SAP R/3 System of the December 2006 Report of the Auditor General. This audit of the SAP HR module's application controls was jointly funded by the Office of the Auditor General, the Department of Finance and the Public Service Commission in order to identify and remedy any possible system application controls. The audit was not designed nor intended to include a review of any existing manual or compensating controls which were in place to augment application controls.

The period covered by the audit was April 1, 2005 to March 31, 2006 and it was conducted in June of 2006. During the presentation of the results of the audit in late July, 2006 some of the audit findings were questioned by staff of the Department of Finance and subsequent attempts to verify some of the instances of inappropriate access contained in the audit were unsuccessful. That notwithstanding a commitment was made at that time to begin to investigate the audit findings. The Public Service Commission and the Department of Finance are presently working together to address the issues identified by this audit either through the amendment of SAP HR module's application controls or through the implementation of manual or compensating controls where appropriate.

4 REVIEW OF SYSTEMS TO COLLECT WAIT TIME INFORMATION

BACKGROUND

4.1 In September 2004, the First Ministers agreed on a 10-year plan to strengthen health care in Canada. A key initiative in this plan was to improve access to care and reduce wait times.

4.2 The following extract from the First Ministers' plan provides detail of the agreement on wait times.

> "All jurisdictions have taken concrete steps to address wait times. Building on this, First Ministers commit to achieve meaningful reductions in wait times in priority areas such as cancer, heart, diagnostic imaging, joint replacements, and sight restoration by March 31, 2007, recognizing the different starting points, priorities, and strategies across jurisdictions. . . .
>
> First Ministers agree to collect and provide meaningful information to Canadians on progress made in reducing wait times, as follows:
>
> - Each jurisdiction agrees to establish comparable indicators of access to health care professionals, diagnostic and treatment procedures with a report to their citizens to be developed by all jurisdictions by December 31, 2005.
> - Evidence-based benchmarks for medically acceptable wait times starting with cancer, heart, diagnostic imaging procedures, joint replacements, and sight restoration will be established by December 31, 2005 through a process to be developed by Federal, Provincial and Territorial Ministers of Health.
> - Multi-year targets to achieve priority benchmarks will be established by each jurisdiction by December 31, 2007.
> - Provinces and territories will report annually to their citizens on their progress in meeting their multi-year wait time targets." (First Minister's Meeting on the Future of Health Care 2004: A 10-year plan to strengthen health care)

4.3 The agreement also included establishment of a Wait Times Reduction Fund of $4.5 billion over the next six years, beginning in 2004–05, to support related initiatives across the country. The purpose of the fund is described as follows:

> "The Wait Times Reduction Fund will augment existing provincial and territorial investments and assist jurisdictions in their diverse initiatives to reduce wait times. This Fund will primarily be used for jurisdictional priorities such as training and hiring more health professionals, clearing backlogs, building capacity for regional centres of excellence, expanding appropriate ambulatory and community care programs and/or tools to manage wait times."

4.4 The Nova Scotia government has received $122.6 million from the Fund. As of March 31, 2006, there is $86.1 million remaining in a trust account of which the Province is a beneficiary.

4.5 The Department of Health (DOH) undertook a number of initiatives focusing on wait times including the January 2004 release of the *Report of the Provincial Wait Time Monitoring Project Steering Committee*. The committee was formed to research and recommend a standardized, province-wide approach to collecting and reporting wait-time information and made a number of related recommendations including the formation of a Wait Time Advisory Committee. The Department of Health issued a response to the report in January 2004. The response indicated that shortening wait times for tests, treatment and care was a key priority and that obtaining standardized information was a first step in the process. The Department of Health established a Wait Time Advisory Committee in 2005.

4.6 In October 2005, the Department of Health established a website (http://www.gov.ns.ca/health/waittimes/default.htm) which *"provides information on Nova Scotia's plan to improve wait times, highlighting the progress to date, and sharing wait time information for publicly funded tests, treatments, and services across the province."*

4.7 At the time of our review, the website provided data on wait times for approximately 40 health services in the Province in the following categories:

- Referrals to Specialist
- Diagnostic Services
- Treatment Services

4.8 The website clearly notes that the wait times provided are for scheduled tests, treatments and services only and do not include wait times for services provided on an emergency basis. The source of the data is various systems in hospitals, District Health Authorities and the Department of Health. The Department of Health describes its objectives for the wait time information as follows:

> *"Nova Scotians can receive health services anywhere across the province.*
>
> *The wait time information provided here may help you decide whether you would like to receive services outside your community. The information is provided by hospital or facility within each district health authority.*
>
> *Our goal is to collect wait-time information for the entire healthcare system. We will continue to share this information as and when it becomes available."*

4.9 In the spring of 2006, the Department of Health requested the Office of the Auditor General to provide an opinion on whether the systems that provide data supporting certain wait times are adequate to produce reliable, complete and accurate information. Because there are a number of systems that produce wait time information and the Office of the Auditor General does not have sufficient resources to review each of these, we decided to focus on a sample of three wait

times - one from each of the major categories. The three wait times included in this review are:

- Referrals to Specialist - Cancer Specialist (Radiation)
- Diagnostic Services - Magnetic Resonance Imaging (MRI)
- Treatment Services - Knee Replacements

4.10 There are two basic approaches to measurement of wait times.

- *Prospective data* is future-oriented and represents the estimated number of days that a patient booking a service would likely have to wait as of the date that the calculation is performed.

- *Retrospective data* is based on actual historical experience and represents the number of days that patients receiving the service have waited.

4.11 Prospective data is future-oriented and, therefore, less reliable. Retrospective data is based on actual experience and, therefore, can be objectively measured and reported. Because retrospective data is deemed to be more useful, the Department of Health has indicated that it intends to report more retrospective wait time data in the future. Systems to collect and report retrospective data are complex and do not exist in all areas. Of the three wait times we examined, the data related to Knee Replacements and Referrals to Cancer Specialists is retrospective. The data for MRIs is prospective and represents the estimated amount of time that a person seeking the service would need to wait.

4.12 The level of assurance provided on the findings and conclusions in this chapter is less than for an audit (i.e., a review provides moderate assurance while an audit provides high assurance). This is because of the type of procedures we performed. Our evidence was based on enquiry, analysis and discussion and was focused on reaching conclusions that are plausible in the circumstances. We did not perform sufficient testing and other audit procedures to permit us to give audit (high) level assurance on our conclusions. Further information on audit and review level assurance may be obtained from the *Canadian Institute of Chartered Accountants Assurance Handbook (Section 5025 - Standards for Assurance Engagements)*.

4.13 We began an audit of the management and use of MRIs and CT scanners at Capital Health and the Cape Breton District Health Authority during the current year. The results of that audit will be reported in 2007. Our review of the wait time for MRIs was performed as part of that audit.

4.14 In 2004 we audited wait times for Cardiac Bypass Surgery and Radiation Therapy. Our findings were reported in Chapter 7 of the June 2005 Report of the Auditor General. At that time, we concluded that the systems producing data on wait times for radiation therapy at the Capital District Health Authority were adequate to produce data which is complete and accurate, while the systems used to provide wait time information for cardiac bypass surgery were not adequate.

RESULTS IN BRIEF

4.15 The following are the principal observations from our review:

- Wait Times for Referrals to Cancer Specialists (Radiation) - We concluded that the system supporting production of this wait time information at Capital Health is adequate to produce data that is accurate, reliable and complete. For the Cape Breton District Health Authority, we were unable to conclude that the system was adequate because of anomalies affecting the completeness and accuracy of the data.

- Wait Times for Diagnostic Services (MRI) - We were unable to verify the calculations of this wait time at both Capital Health and Cape Breton District Health Authority because certain supporting documentation is not available for verification after the wait time is calculated and reported.

- Wait Times for Treatment Services (Knee Replacements) - We concluded that the system supporting production of this wait time information is adequate to produce data that is accurate, reliable and complete.

- During our review of all three wait times, we found that there were few formal controls over the quality of information reported. We have made several recommendations to improve quality control processes.

REVIEW SCOPE

4.16 The first objective of this review was to assess the adequacy of the systems that support the production of wait times information for:

- consultations with radiation oncologists at Capital Health (CDHA) and the Cape Breton District Health Authority (CBDHA);

- MRIs (Magnetic Resonance Imaging) at Capital Health and the Cape Breton District Health Authority; and

- knee replacement surgery at four District Health Authorities (Capital Health, Cape Breton, Pictou County, and Annapolis Valley).

4.17 The second objective was to determine whether the Wait Times website adequately disclosed the limitations of the wait times listed above and relevant information such as definitions and sources of data.

4.18 Our review included the following three computer systems which provide source data for the wait times included in this assignment:

- OPIS system at Capital Health and the Cape Breton District Health Authority (Wait time for consultation with radiation oncologist)

- QuadRIS system at Capital Health (Wait time for MRIs)
- MSI Physician Payments database (Wait time for knee replacement surgery)

4.19 The booking system for MRIs at Cape Breton District Health Authority is completely manual and was also included in our review scope.

4.20 The level of assurance provided on the findings and conclusions in this chapter is less than for an audit (i.e., a review provides moderate assurance while an audit provides high assurance). This is because of the type of procedures we performed. Our evidence was based on enquiry, analysis and discussion and was focused on reaching conclusions that are plausible in the circumstances. We did not perform sufficient testing and other audit procedures to permit us to give audit (high) level assurance on our conclusions.

4.21 We began our review by establishing criteria which represent best practices for the area being examined. The following criteria were discussed with the Department of Health in the planning stages of this assignment.

- Wait times should adequately reflect the facts to an appropriate level of accuracy.
- There should be appropriate systems, policies and procedures to collect and process the data.
- Systems providing source data should be subject to quality control to reduce the risk of omissions and errors.
- Wait times reports should be prepared using a defined process that provides control over information quality including supervision, authorization, checks, guidance and training for those preparing the report.
- Reported information should be capable of being verified. Wait times should be traceable and capable of reproduction.
- There should be appropriate policies and procedures in place to ensure the information used to calculate wait times is complete.
- Wait times should be defined. Significance and limitations should be explained.
- Information should be presented in a neutral, unbiased manner.

4.22 Our review was based on the wait times disclosed on the Department of Health's website as at September 2006. The data on the website is updated on a regular basis. Our conclusions specifically relate to the data and systems we reviewed and would not apply to any changes after September 2006.

PRINCIPAL FINDINGS

Referrals to Specialist - Cancer Specialist (Radiation)

4.23 DOH reports monthly on the wait times for referrals to radiation cancer specialists (see Exhibit 4.1). The wait time is retrospective and is calculated as the time between the specialist appointment and the day the cancer care center receives the referral. The calculation and the details from this calculation are taken from the Oncology Patient Information System (OPIS). These wait times are presented for Nova Scotia's two cancer centres, Halifax and Cape Breton.

4.24 We concluded that the system supporting production of this wait time information at Capital Health is adequate to produce data that is accurate, reliable and complete. For the Cape Breton District Health Authority, we were unable to conclude that the system was adequate due to anomalies we encountered. We have made recommendations to management for improvements.

4.25 Suggested improvements - We found differences between Halifax and Cape Breton in the way OPIS is being used. Fields which should be standardized are being defined differently resulting in incomparable reporting. Also, not all those preparing wait times information were aware of the reporting capabilities of the system.

Recommendation 4.1

We recommend that the use of all OPIS fields be standardized.

Recommendation 4.2

We recommend that the reporting capabilities of OPIS be communicated to all those responsible for preparation of wait time reports which use the system for source data.

4.26 We were unable to reconcile the OPIS data for Cape Breton to the wait time published on the website. An additional item was added and other unidentifiable changes were made to the data after the reporting date.

4.27 Presentation of wait time - The reporting of wait times for radiation oncology is presented on the website as an average for all types of cancer. This masks important differences relating to different types of cancer. The Provincial Wait Time Monitoring Project Steering Committee also recommended that data be reported by type of cancer.

4.28 In addition, the wait time calculation on the DOH website is currently presented as an average rather than a distribution. This provides limited information and the results may be skewed by outliers.

4.29 We found that while OPIS is capable of providing an appropriate level of aggregation for reporting wait times, DOH currently does not utilize this and reports at a level of detail that is too simplified. OPIS has the ability to report a cumulative distribution for wait times, by type of cancer, although the website reports just a single average.

Recommendation 4.3

We recommend that the reporting of wait times for referrals to radiation cancer specialists reflect more comprehensive information such as the cumulative distributions by type of cancer.

Diagnostic Services – Magnetic Resonance Imaging (MRI)

4.30 The wait times for MRI are reported to the Department of Health by four District Health Authorities (DHAs) (see Exhibit 4.2). We reviewed the system for reporting wait times at two of the four: Capital Health and Cape Breton District Health Authority. We were unable to verify the calculations at either DHA because certain supporting documentation is not available for verification after the wait time is calculated and reported as described below.

4.31 The Capital District Health Authority uses source data from the QuadRIS electronic radiology information system while the Cape Breton District Health Authority uses a completely manual booking system. Both DHAs report the information monthly to the Department of Health.

4.32 The wait time for MRI is to be measured prospectively (see paragraph 4.10) and the website defines the wait time as "*counting the number of calendar days from the day the request arrives in the diagnostic imaging department to the next available day with three open appointments*".

4.33 Presentation of wait time – Capital Health complies with the definition on the website with two exceptions:

- The starting point for the calculation is not the date when the requisition is received by Capital Health's Diagnostic Imaging Department (or, rather, when it is triaged and filed with the unbooked requisitions). The period of time between receipt of the requisition and filing is estimated by Capital Health to be about one day, and the Provincial Wait Time Monitoring Project Steering Committee estimated the figure to be a few days. The reported wait times would all be underestimated by a small amount due to the number of unbooked requisitions not yet triaged and filed which are not included in the calculation.

- At any given point, not all triaged requisitions would have been entered into the booking system. At the current time, CDHA is not booking MRI appointments beyond February 2007 when two new MRI machines are planned to start operating. The website indicates that the reported wait time

is the "*next available day with three open appointments*". CDHA uses that figure as its starting point but then adjusts it for an estimate of the number of additional days that would be required for the number of unbooked requisitions. We believe that CDHA's approach is appropriate. However, the wording of the definition needs to be reviewed to ensure that it is consistent with the actual calculation.

4.34 The Cape Breton District Health Authority's methods for booking MRIs and calculating wait times are very different from the methods used by Capital Health. A completely manual system is used to schedule MRIs and examinations are only scheduled three days in advance of the procedure. As a result, the majority of requisitions are unbooked. We understand that CBDHA is planning to start using the Nova Scotia hospital Information System (Meditech system) to book MRIs at some point in the future.

4.35 Accordingly, the website definition which focuses on the first day with three open appointments does not accurately describe the information calculated and reported by CBDHA. Rather, the DHA counts the total number of unbooked requisitions and divides by the typical number of scans that can be performed in a day. This number is then added to the number of days to the next day with three open appointments and reported to the Department of Health.

4.36 The website definition of MRIs does not distinguish between types of examinations (i.e., major body parts involved). We found that there were significant differences between the expected wait times for types of examinations and the reported average (e.g., bone examinations had a relatively long wait time whereas other body sites had shorter times). More comprehensive reporting of wait times such as expected wait times for each major type of examination would improve the relevance and information value to the user of the information. The Provincial Wait Time Monitoring Project Steering Committee recommends disclosure by body part/type of scan.

4.37 *As indicated in paragraph 4.11 above, calculation of wait times data on a retrospective basis provides more reliable information and the Department of Health plans to move to that method of calculation in the future. We support the Department of Health's plans to move to retrospective data collection for all wait times.*

Recommendation 4.4

We recommend that the Department of Health modify the definition of MRI wait times used on the website to ensure it is consistent with the information calculated and provided by the District Health Authorities.

Recommendation 4.5

We recommend that the Department of Health's website disclosure of the wait time for MRIs

reflect more comprehensive information such as the specific wait times for major types of MRI examinations rather than just a single data point such as the average for all types.

4.38 Verification of calculation - We could not verify the accuracy or completeness of the wait time calculation at Capital Health because the information supporting the next available day with three open appointments is taken from the on-line system and is not available for verification after the wait time is calculated and reported. The number of unbooked requisitions is counted by one person and there is no check of the total. Support for these factors is not retained as a management trail or available for verification purposes. We, therefore, could not verify the information at a later point in time.

4.39 In addition, we found calculation errors at Capital Health which made the reported wait time calculation inaccurate. The information from the electronic system for each of the three major types of examinations (i.e., body sites - neuro, bone, body) at each of the MRI sites (Halifax Infirmary, Victoria General/ IWK) is adjusted through an electronic spreadsheet and complex manual calculations to arrive at an average number of calendar days. The end result is calculation of a single weighted average figure representing each of the three major types of examinations and MRI sites. We found errors in this process for the month we examined (August) which caused the wait time to be understated by 18 days.

4.40 Similarly, CBDHA also has one person count the number of unbooked requisitions and there is no check of the total. Support for this figure is not retained as a management trail or available for verification purposes. We could not verify the accuracy or completeness of the wait time calculation at CBDHA because we could not verify the unbooked requisitions figure at a later point in time.

Treatment Services - Knee Replacements

4.41 DOH reports the wait times for knee replacements quarterly (see Exhibit 4.3). The wait time is retrospective and is generally calculated as the time between the procedure and the second previous visit. The data is extracted from the MSI billing system, administered under contract with the Department of Health by Medavie Inc., using a custom FoxPro program. The calculation of the wait times is done by custom FoxPro and Stata computer programs. These custom programs were developed in-house by staff at DOH. We reviewed the logic used in the assumptions and reviewed the programming code to ensure accuracy.

4.42 We concluded that the system supporting production of this wait time information is adequate to produce data that is accurate, reliable and complete. The methodology used to calculate these wait times was found to be neutral and unbiased. Although no significant errors were found in the system or data we reviewed, there are weaknesses in the current system which increase the potential risk of error. We identified some areas for improvement which have been communicated separately to management and are summarized in this chapter.

4.43 We would like to commend the staff at DOH for their initiative and commitment to increased automation of this wait time calculation. This increased automation has allowed for more efficient and accurate reporting. However, several minor deficiencies were identified in our review of the programming logic of the systems used to collect and process data. These deficiencies affected both the completeness and the accuracy of the data to some extent but did not change the resulting wait times significantly.

4.44 Suggested improvements - The process used to calculate knee replacement wait times is very complex but is only informally documented. This lack of formal documentation places undue reliance on key staff. In the event of staff turnover there would be a lack of continuity and the loss of institutional knowledge.

4.45 The Department currently has very few formal review processes to ensure the information is accurate before it is posted to the website. Although we found no errors, the lack of a formal review process increases the risk of inaccurate information being posted to the website.

4.46 The data for the knee replacement wait time calculation is downloaded two months after the end of the quarter. The MSI billing manual allows for physicians to submit claims up to 90 days after the end of the quarter. Although this only had a negligible effect on the knee replacement wait time for the month we reviewed (August 2006), this may cause problems with completeness and accuracy in the future or on other reportable categories.

Recommendation 4.6

We recommend that the Department of Health continue to monitor submission dates for physician claims to ensure that the quarterly data downloaded from the MSI billing system is substantially complete for purposes of the specific wait time calculation.

4.47 The most serious limitation surrounding the calculation of wait times for knee replacements is due to the reliance on the MSI billing system. This system was not designed to report wait times and considerable effort and time have been expended to develop the logic and code necessary to extract the wait time information from the physician billing system. There are planned changes to the physician billing system and we encourage the Department of Health to include its requirements for wait time information in the new system.

Recommendation 4.7

We recommend that, to the extent possible, the physician billing system and related billing codes be modified to increase the accuracy and efficiency of wait time calculations.

4.48 Presentation of wait time - We found the reporting of knee replacement wait times to have an adequate level of disclosure. We compared the current information reported on knee replacements to the standards set in the reporting requirements outlined in 2004 by a national working group that established standards for reporting under the First Minister's Health Accord and found that DOH generally met these guidelines. One exception is that the website does not disclose the median wait time which was recommended by that group.

Controls over Quality of Information

4.49 During our review of all three wait times, we found that there were few controls over the quality of information reported. We expected to find defined policies and procedures for the collection and reporting of data and independent reviews of reported information to ensure quality (see review criteria in paragraph 4.21). In all three cases, we found that staff preparing the calculations understood the processes and requirements, but there were no documented policies to ensure consistency and knowledge transfer to other staff who might be required to participate in the process in the future. We also found that there were no standard quality review and approval processes at the DHAs or Department of Health. Such processes could include requirements for independent review of calculations and comparison of wait times with prior periods and expectations to determine reasonableness.

4.50 Support for wait time reports should be maintained to provide a trail for management. This is difficult when information is obtained from on-line systems with constantly changing data but printing of critical screens is one option. Retention of lists to support manual counts, or independent counts and signoffs by a second person are other options providing for adequate management trails. These trails would then be available to those who subsequently need to review and verify the information reported.

4.51 Quality is generally enhanced through use of information technology to automate calculations and data extracts. The wait time information calculation was completely automated in only one of the three cases (Referrals to Cancer Specialist (Radiation) from OPIS system). We encourage the Department and DHAs to build the requirement for wait time information and reports into automated systems. When systems are automated, basic controls over information technology systems should be implemented. For example, program changes should be subject to appropriate testing and review, code changes should be locked, and processes should be documented in user manuals. We note that these processes are occurring for OPIS. The following general recommendations would enhance the quality of wait time information.

Recommendation 4.8

We recommend that the Department of Health consider building the requirement for wait time information and reports into automated systems.

Recommendation 4.9

We recommend implementation of a formal quality control process for wait time data at both the District Health Authorities where the reports originate and the Department of Health.

Recommendation 4.10

We recommend that the Department of Health formally document policy guidance for how each wait time is to be calculated.

Recommendation 4.11

We recommend that all District Health Authorities retain, for at least one year, the support for all wait times reported to the Department of Health.

Recommendation 4.12

We recommend the Department of Health develop a centrally stored user manual explaining the process and logic for each automated wait time calculation.

Recommendation 4.13

We recommend that all programming changes related to electronic wait time information be subject to appropriate testing and review. In addition, we recommend that the code be locked as read only between iterations.

CONCLUDING REMARKS

4.52 It is generally recognized that access to care and wait times are key aspects of health system performance. In order to attain a high level of performance, good wait time information is required.

4.53 We believe that the Department of Health and District Health Authorites are attempting to report wait time data that is accurate, complete and reliable. The Department of Health requested the Office of the Auditor General to review the wait time information on the Province's website. This request is a tangible indicator of the Department's interest in improving the quality of the information.

4.54 Reporting of wait time information is a new initiative both nationally and in Nova Scotia. Our review found that some systems were working well while others require improvement and increased automation. This is to be expected given that this is a new initiative and that the processes for providing wait time information

are complex. There are approximately 40 different wait times on the website and more are planned. In some cases, existing information systems were in place long before the need for wait time information was contemplated and data providers need to manually manipulate the data to reflect wait times.

4.55 The Department of Health needs to provide standards and implement quality control processes to ensure data reported is consistent, accurate, reliable and verifiable. The requirement for wait time information needs to be incorporated into automated systems.

4.56 The role of audit is well understood in the provision of financial information, but is just beginning to be recognized in the provision of non-financial information. Nova Scotia is the first jurisdiction in Canada to formally request its legislative auditor to examine wait time information. We commend the Department of Health for the leadership shown in requesting this review and for its efforts to report accurate, reliable and complete wait time information.

Exhibit 4.1

Wait Times Data - Referrals to Specialist
Cancer Specialist (Radiation)

Cancer Specialists are located in the Capital District Health Authority at the Nova Scotia Cancer Centre in Halifax, and in the Cape Breton District Health Authority at the Cape Breton Cancer Centre in Sydney.

The wait times provided here are for scheduled tests, treatments and services only.

Location	Average Wait Times (Calendar Days)
Cape Breton	17
Capital Health	12

August 2006 data - Next update end of October 2006

How do we measure wait times for Radiation Cancer Specialists?

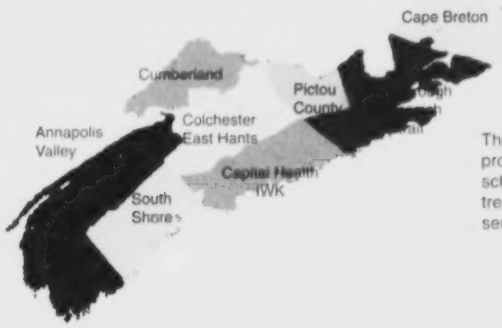
Wait times are currently measured by counting the number of calendar days from the day the referral arrives in the cancer centre to the day the specialist appointment takes place.

Source: Department of Health website

Wait Times Data - Diagnostic Services
Magnetic Resonance Imaging (MRI)

Exhibit 4.2

MRIs are provided at Capital Health Authority, IWK Health Centre, South West Yarmouth Regional Hospital and at the Cape Breton Regional Hospital in Sydney.



The wait times provided here are for scheduled tests, treatments and services only.

The wait times provided here are for less urgent services. People requiring more urgent care receive it sooner.

District Health Authority	Community	Facility	Wait Times (Calendar Days)
Cape Breton	Sydney	Cape Breton Regional Hospital	54
Capital Health	Halifax	Queen Elizabeth II Health Science Centre	162
IWK Health Centre	Halifax	IWK Health Centre	95*
South West	Yarmouth	Yarmouth Regional Hospital	41

August 2006 data - Next update end of October, 2006

*Patients under the age of 7 years requiring sedation may wait longer as special preparation is needed. Wait times may also include women requiring MRI for gynecological examinations.

Adult MRIs scheduled through Capital Health and done at the IWK Health Centre are included in Capital Health's data.

How do we measure wait times for MRI (Magnetic Resonance Imaging?

Wait times for MRI are measured prospectively by counting the number of calendar days from the day the request arrives in the diagnostic imaging department to the next available day with three open appointments.

Systems continue to be developed to measure wait times in all diagnostic areas.

Source: Department of Health website

South
West

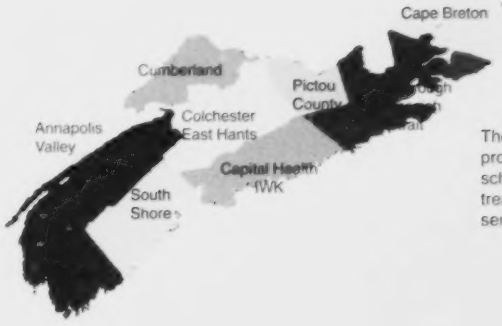
Cumberland
Guysbo
Antigonis
Capital Hill
South
West

South
West

Exhibit 4.3

Wait Times Data - Treatment Services
Knee Replacements

Knee Replacements are provided in four district health authorities



The wait times provided here are for scheduled tests, treatments and services only.

Cumulative Percentage of Patients Whose Surgery was Completed within Specific Time Periods

District Health Authority	Days							
	30	60	90	180	270	360	540	720
Annapolis Valley	0%	3%	7%	40%	57%	66%	84%	91%
Cape Breton	0%	2%	12%	57%	80%	86%	94%	96%
Capital Health & Pictou County	1%	4%	10%	39%	51%	70%	84%	93%
Nova Scotia	**1%**	**3%**	**10%**	**43%**	**58%**	**72%**	**86%**	**93%**

Table is based on all patients who received service on a scheduled basis between April 1 and June 30, 2006. Next update scheduled for the end of December 2006.

How do we measure wait times for Knee Replacements?

Wait times for Knee Replacement are measured using the physician billing system. The wait time is calculated retrospectively from the time the Knee Replacement surgery was performed to the time of the 2nd previous visit with the orthopedic surgeon.

Source: Department of Health website

DEPARTMENT OF HEALTH'S RESPONSE

Recommendation	Response
4.1 the use of all OPIS fields be standardized	Agree. We will communicate this direction to Cancer Care NS.
4.2 the reporting capabilities of OPIS be communicated to all those responsible for preparation of wait time reports which use the system for source data.	Agree. We will communicate this direction to Cancer Care NS
4.3 the reporting of wait times for referrals to radiation cancer specialists reflect more comprehensive information such as the cumulative distributions by type of cancer.	Agree. This request has already been made of Cancer Care NS and will be addressed as soon as the upgrade to OPIS is completed.
4.4 the DOH modify the definition of MRI wait times used on the website to ensure that it is consistent with the information calculated and provided by the DHAs.	Agree.
4.5 the DOH's website disclosure of the wait times for MRIs reflect more comprehensive information such as the specific wait times for major types of MRI examinations rather than just a single data point such as the average for all types.	Agree. We will communicate this requirement to those facilities with MRIs.
4.6 the Department of Health continue to monitor submission dates for physician claims to ensure that the quarterly data downloaded from the MSI billing system is substantially complete for purposes of the specific wait time calculation.	Agree.
4.7 to the extent possible, the physician billing system and related billing codes be modified to increase the accuracy and efficiency of wait time calculations.	Agree. We have already taken steps to automate as much of this process as possible to reduce the risk of data handling errors.

4.8 the DOH and DHAs consider building the requirement for wait time information and reports into automated systems.	Agree. Our approach is to use the information systems that support the business process to capture and report wait time information. However, many areas of the health care system still do not have the automated systems in place to support the business process. We have and will continue to request funding to address these deficits. In the meantime, we will work with existing systems and new systems that are in development to ensure that the requirement for wait time data capture and reporting is addressed.
4.9 implementation of a formal quality control process for wait time data at both the DHAs, where the reports originate, and the DOH.	Agree.
4.10 the Department of Health formally document policy guidance for how each wait time is to be calculated.	Agree.
4.11 that all DHAs retain, for at least one year, the support for all wait times reported to the DOH.	Agree. This issue will be included in the policy guidance provided by DOH.
4.12 the DOH develop a centrally stored user manual explaining the process and logic for each automated wait time calculation.	Agree. We have already taken steps to address this.
4.13 all programming changes related to electronic wait time information be subject to appropriate testing and review. In addition, we recommend that the code be locked as read only between iterations.	Agree. We have already taken steps to address this.

5 CORRECTIONAL SERVICES

BACKGROUND

5.1 The Nova Scotia Department of Justice is responsible for the administration of justice in Nova Scotia. This includes administering court-imposed sentences in criminal cases. The Department is authorized to incarcerate offenders and enforce community-based sentences in accordance with the federal Prisons and Reformatories Act, the federal Youth Criminal Justice Act and, at the time of our audit, the Nova Scotia Corrections Act. The stated purpose of the Nova Scotia Corrections Act is *"to provide for the safe custody and security and the rehabilitation of offenders and for the integration of offenders into the community while at the same time providing adequate safeguards for the community."* (The Nova Scotia Corrections Act was replaced by the Correctional Services Act on July 1, 2006, after the completion of audit field work.)

5.2 *There are two types of court sentences: community-based and custody-based. Community-based sentences consist primarily of probation and conditional sentence orders, both of which may include conditions such as community service and/or house arrest. Custody-based sentences require an offender to be incarcerated in a correctional facility. Such sentences may be for a period of consecutive days or be intermittent (e.g., time served on weekends).*

5.3 *In Nova Scotia, responsibility for adult custodial sentences is split between the federal and Provincial governments. Adult offenders sentenced to a custodial term of two or more years fall under federal jurisdiction, whereas offenders sentenced to less than two years are the responsibility of the Province. The Province is also responsible for the temporary detention of adults on remand (court-ordered detention of a person awaiting further court appearances), and other forms of temporary detention such as immigration holds. Responsibility for the administration of youth (ages 12 to 17) community and custody-based sentences is also the responsibility of the Province. In Nova Scotia, adult parole services for offenders in Provincial correctional facilities are administered by the federal National Parole Board.*

5.4 The Correctional Services Division of the Department of Justice is assigned responsibility for the administration of community and custody-based sentences. Accordingly, Correctional Services is divided into two core program areas: community corrections and correctional facilities. Correctional Services also has a program services section to support the two core program areas.

5.5 In addition to administering court-imposed sentences, Correctional Services serves the court by preparing pre-sentence reports, providing alternative justice measures to assist the court in diverting minor adult offenses from the court process, and by providing programs to assist offenders in reintegrating into the community. The

majority of these and related activities are part of the 22 community corrections offices located throughout the Province.

5.6 The average daily number of offenders under the supervision of community corrections staff in Nova Scotia in 2005-06 was 4,000 adults and 650 youths. The average daily cost for the supervision of a community-based sentence in that year was $5.

5.7 Correctional Services operates five adult correctional facilities with a total capacity of 402 males and 48 females, and two youth correctional facilities with a total capacity of 100 males and 13 females. Exhibit 5.1 provides information on facility location, capacity and staffing levels. During 2005-06, the average daily occupancy of Nova Scotia correctional facilities was 340 adults and 60 youths. The average daily cost to incarcerate an adult in 2005-06 was $178, while the average daily cost for a youth was $349.

5.8 Operating costs for Correctional Services for the year ended March 31, 2006 totaled $41.1 million. Expenditures by major program were:

- community corrections activities - $7.6 million
- youth correctional facility operations - $8.4 million
- adult correctional facility operations - $21.9 million
- head office activities - $3.2 million

5.9 As at March 31, 2006 there were 582 full time equivalent staff employed in Correctional Services operations as follows:

- community corrections - 119
- youth correctional facilities - 118
- adult correctional facilities - 325
- head office activities - 20

RESULTS IN BRIEF

5.10 The following are our principal observations from this audit.

- Performance information currently prepared by Correctional Services is inadequate to assess the efficiency and effectiveness of its programs and services. Correctional Services is in the process of addressing these deficiencies.

- Pre-sentence investigations and reports are generally completed in compliance with Departmental policies and procedures. However, they are not always completed within the timeframe set out in policy.

- There is inadequate compliance with policies and procedures for monitoring and enforcing community-based sentences. We identified instances of

inappropriate offender reporting schedules being used and offender risk assessments not completed as required by the policy. We also identified several instances where breaches of the terms and conditions of a community-based sentence occurred but breach proceedings were not initiated. Support for the decision to exercise discretion in these instances was not included in the case files.

- There is general compliance with policies and procedures for enforcing custodial terms and conditions of intermittent sentences. We did, however, identify instances of non-compliance with offender admittance and release policies and procedures.

- Due to inadequate file documentation and a need to clarify certain policies, we were unable to assess whether conditional release policies and procedures had been fully complied with. However, we concluded terms and conditions of conditional releases are monitored and enforced in accordance with policy.

- Roles and responsibilities within Correctional Services are generally clearly defined, assigned and communicated.

AUDIT SCOPE

5.11 In May 2006 we completed a broad scope audit of the Correctional Services Division of the Department of Justice. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included such tests and procedures as we considered necessary in the circumstances.

5.12 Our audit focused on performance information for Correctional Services and on policies and procedures for adult correctional programs and services. However, we noted for conditional releases, Correctional Services applies the same policies and procedures to both youth and adult offenders, with modifications as required. As a result, our observations in this area are applicable to all offenders.

5.13 The objectives of the audit were to assess:

- the adequacy of performance information prepared and reported;

- compliance with policies and procedures used to ensure pre-sentence investigations and reports are properly completed on a timely basis; and

- compliance with policies and procedures used to administer, monitor and enforce community-based sentences, intermittent sentences and conditional releases.

5.14 Audit criteria were used to assist in the planning and performance of the audit. For the audit of performance information, criteria were obtained from the CCAF-

FCVI Inc. publication *Public Performance Reporting - Reporting Principles*. Criteria for the other audit areas were developed based on past audits completed by this Office and other legislative audit offices. All criteria were discussed with and accepted as appropriate by senior management of Correctional Services.

PRINCIPAL FINDINGS

Performance Information

5.15 Our objective for this section of the audit was to assess the adequacy of performance information prepared and reported by Correctional Services. We concluded that performance information currently available does not provide sufficient, relevant and appropriate information to help users of the information assess the efficiency and effectiveness of Correctional Services operations. However, the Department of Justice, including Correctional Services, is currently developing new performance measures, indicators and targets, as well as updating existing ones. A Justice Indicators Committee has been created to oversee this process. The Department has also been working with other jurisdictions to develop and refine performance measures and indicators for the criminal justice system. We noted significant progress on the Department's initiatives.

5.16 Correctional Services has defined its mission as *"to contribute to the maintenance of a just, peaceful and safe society..."* It has identified the critical aspects of its operations as ensuring safety and security in the workplace and encouraging positive change in offender attitudes and behaviors. The quality and effectiveness of Correctional Services programs and services, including the custody, rehabilitation and reintegration of offenders are critical elements affecting the safety of society.

5.17 Performance information within Correctional Services is limited. Internally produced information consists primarily of average daily and monthly inmate counts, cost information, staffing levels, number of escapes, number of incidents (e.g., violent acts), as well as information on various activities. We were advised by management that this information is analyzed and compared internally, as well as compared to information from other jurisdictions, with corrective action taken as required. However, because the review and analysis were not documented, we could not verify this statement. We noted that data collected is not linked to program outcomes and there is inadequate information to assess the efficiency and effectiveness of programs and services.

5.18 We also examined Correctional Services performance information included in the Department's 2004-05 Accountability Report. These reports are required of all government departments by Provincial legislation. We noted weaknesses in information provided, such as inadequate performance measures and indicators, performance measures and indicators without clear linkages to stated outcomes, absence of comparative information from other jurisdictions, and lack of performance information on key activities such as community corrections operations. We concluded that the performance information included in this

report is inadequate to enable its users to assess the efficiency and effectiveness of Correctional Services programs and operations.

5.19 Performance information included in the Department's 2004-05 Accountability Report was manually compiled from various sources. Management advised us that the new Justice Enterprise Information Network system will be used to produce future performance information once information needs have been fully defined.

5.20 Correctional Services monitors and reports annually on the number of escapes from custody. This measure indicates the degree of protection provided to society through secure custodial systems and provides an indication of the effectiveness of Correctional Services' policies and procedures. However, because the average period of incarceration is less than 60 days, protection of society by incarceration is only a short-term measure. The ultimate measure of Correctional Services' success in achieving its objective of contributing to a just, peaceful and safe society is whether it has been able to effect positive change in offender attitudes and behaviors so that the safety of society will not be threatened when the offender is in the community.

5.21 A common measure of change in offender attitudes and behaviors is the rate of reoffending, referred to as recidivism. Recidivism rates provide an indication of the effectiveness of government-supported personal development activities and rehabilitation programs. Correctional Services has defined the rate of recidivism as the percentage of offenders who reoffend within one year of release from custody. Our audit of Departmental performance information noted that recidivism rates for youth in custody are measured and reported, but adult recidivism rates are not. Management advised us that recidivism rates for adults in custody will be reported in 2008.

5.22 Our audit also found that recidivism rates are not measured for offenders given community-based sentences. This information could assist in assessing the safety of society as a result of community-based sentencing of offenders. Without reliable recidivism rates for all offenders, Correctional Services is not able to fully evaluate and report the effectiveness of programs and services in changing offender attitudes and behaviors. We believe the rate of recidivism for community-based sentences is an important performance indicator for Correctional Services due to the significance of these sentences as shown by the ratio of community-based sentences to incarceration sentences. For the year ended March 31, 2006, the ratio of community-based sentences to incarceration sentences was 12 to 1 for adults and 11 to 1 for youths.

Recommendation 5.1

We recommend Correctional Services develop, implement and report performance measures, indicators and targets for all key programs and services to enable an assessment of the efficiency and effectiveness of the Division.

5.23 We assessed the linkages of the goals and objectives of Correctional Services to the goals and objectives of government and the Department of Justice. We concluded that the Division's goals and objectives are clearly defined and communicated, and are consistent with the goals and objectives of government and the Department. We also examined senior management roles and responsibilities and found they were clearly defined, assigned and communicated in most of the areas we audited. We identified a deficiency in this regard related to responsibilities for performance information and reporting.

Recommendation 5.2

We recommend Correctional Services clearly define, assign and communicate staff roles and responsibilities for performance information and reporting.

5.24 Section 83 of the Provincial Finance Act requires the Minister of Finance to table a report on outcomes in the House of Assembly for the fiscal year ended March 31 by December 31 of that year. This required report is currently named the Government Accountability Report. It is prepared by Treasury and Policy Board based on departmental accountability reports prepared in accordance with guidelines established by the Board. The 2004-05 Accountability Report for the Department of Justice was prepared and submitted to Treasury and Policy Board as required and in accordance with the target date. However, Government Accountability Reports for 2004-05 and prior periods were not tabled in the House of Assembly as required by legislation. We brought this matter to the attention of Treasury and Policy Board. The Board tabled the reports and indicated future reports will be tabled by December 31, as required by the Act. We confirmed that the 2004-05 and prior period reports had been tabled in the House of Assembly.

Pre-sentence Reports

5.25 We assessed compliance with the policies and procedures used by Correctional Services to ensure pre-sentence investigations and reports (PSRs) are completed in accordance with established policies and procedures. We concluded there is general compliance with policies and procedures. However, we found reports were not always provided to the courts within the timeframe stated in the policy, which is at least three days prior to sentencing. In addition, we also concluded review and approval procedures for PSRs were inadequate.

5.26 PSRs provide the courts with information on an offender. The reports include information on the offender's criminal, education and employment history, community and family ties, finances, and health, as well as information on the offender's character, attitude and personality. The reports are used by the courts in determining offenders' sentences after they have been convicted of an offense. PSRs are not mandatory. They are prepared only when requested by the court.

5.27 Policies and procedures - Correctional Services has formal policies and procedures for the completion of pre-sentence investigations and reports, and we found they provide adequate guidance to assist staff in the preparation of the reports. Correctional Services estimates there were in excess of 3,000 PSRs prepared between April 1, 2005 and March 31, 2006. The actual number of PSRs is not tracked.

5.28 Our examination of the PSR process included a review of 60 reports. We found all reports were prepared in accordance with established policies and procedures. However, 25 % (15 of 60) of the reports were not submitted to the court at least three days prior to the sentencing date, as required by the policy.

5.29 PSRs also require the probation officer to provide financial information on the offender, which is used by the courts in determining fines and other sentences. We found that this information is obtained from the offender and is generally not verified. We advised that financial information on offenders be subject to a verification process to enhance the credibility of information submitted to the court.

5.30 Correctional Services' policies define preparation of PSRs as the top priority of probation officers. However, as a result of an initiative by Correctional Services to more evenly distribute workloads, probation officers are generally limited to 5 PSRs and 75 cases per month. Thus, a large portion of the PSRs are prepared by assistant probation officers hired on a contract basis. We were advised by management that only reports prepared by new full-time and assistant probation officers are reviewed and approved, but we were unable to substantiate this since the review and approval is not documented. Also, there is no review of PSRs prepared by more experienced probation officers prior to submission to the court. Since the court relies on PSRs in determining sentences, [illegible]y of the reports is critical. In our view, PSRs should be subject to a review [illegible] approval process prior to submission to the court to reduce the risk of errors and omissions in the reports. A review and approval process could also help to address our concern over timeliness of PSRs by ensuring reports are provided to the court within three days, as required by the policy.

5.31 Systems - We found that scheduling and tracking of pre-sentence investigations and reports are done informally. The court requests a PSR and provides the date by which it is required. The task is assigned to a probation officer or assistant probation officer, who becomes solely responsible to ensure it is completed and delivered to the court by the required date. There is no system to schedule and track PSRs. As a result, Correctional Services is unable to provide statistics on the number of investigations and reports completed or the timeliness of the reports. We advised management that a formal tracking and scheduling system could provide useful information to improve operational efficiencies and ensure all reports are completed and submitted to the court by the required dates.

Recommendation 5.3

We recommend Correctional Services modify its policies and procedures to include a requirement for formal, documented review and approval of pre-sentence reports. We further recommend that a scheduling and tracking system be implemented to ensure reports are prepared and submitted to the courts in accordance with policy.

5.32 Roles and responsibilities - We reviewed staff position descriptions, as well as policies and procedures related to pre-sentence investigations and reports and concluded that roles and responsibilities were clearly defined, assigned and communicated. Our survey of staff indicated that adequate pre-sentence investigation and report training has been provided.

5.33 Survey results - We also surveyed Provincial judges, crown prosecutors and legal aid lawyers to determine whether PSRs were meeting their needs and being provided on a timely basis. Both the crown prosecutors and legal aid lawyers responded to our survey and indicated PSRs were generally timely and meeting their needs. We received one response from a Provincial judge which stated PSRs were of interest, but no comments were provided as to whether or not PSRs were meeting judges' needs, or if there were any concerns related to timeliness.

5.34 We were advised by management that they are reviewing the current PSR process and will be updating their policies and procedures as a result. Management further indicated any additional training needs will be identified and addressed as part of this review.

Community-based Sentences

5.35 As an alternative to incarceration, the courts can impose a community-based sentence on an individual found guilty of a criminal offense. Community-based sentences consist primarily of probation and conditional sentence orders. Community service and house arrest are some of the conditions that may be attached to probation and conditional sentence orders. An objective of our audit was to assess compliance with the policies and procedures used to monitor and enforce community-based sentences. We concluded there is inadequate compliance with these policies and procedures.

5.36 Policies and procedures - Correctional Services has formal policies and procedures to guide staff in monitoring and enforcing community-based sentences. The policies provide direction to assist staff in identifying instances of non-compliance with the terms and conditions of a community-based sentence and actions to be taken in such instances. The policies also clearly define and assign staff roles and responsibilities. We surveyed community corrections staff and found they generally believe adequate staff training is being provided.

5.37 Our audit of community-based sentences included an assessment of 60 case files for compliance with policies and procedures. We identified one or more instances

of non-compliance in 17 of the files. Accordingly, we concluded policies and procedures were not adequately adhered to. We were also unable to conclude on certain aspects of the monitoring and enforcement process due to a lack of documentation to support compliance.

5.38 During our testing, we noted the following findings:

- When breach proceedings were initiated, they were reported to the appropriate authorities on a timely basis.
- The reporting requirements for an offender serving a community-based sentence are based on an offender risk assessment. High-risk offenders are required to report to a probation officer once every two weeks. We identified two cases where an inappropriate offender reporting schedule was being used for a high-risk offender.
- Eleven instances were identified where an offender risk assessment was not completed or updated within the required timeframes.
- There were ten instances where a breach of the terms and conditions of the community-based sentence were identified, but breach proceedings were initiated in only five cases. Breach proceedings involve a recommendation to Public Prosecutions Services to lay charges against an offender for non-compliance with the terms and conditions of a community-based sentence. The breaches we noted included failures to report for meetings, incomplete community service, and a failure to pay restitution. Section 3.2 of the Breach of Probation Policy of Correctional Services provides guidance on when to initiate breach proceedings, however support for the decision to exercise discretion in these instances was not included in the case files. As a result, we were unable to conclude if the policy had been complied with.

5.39 We also reviewed three internal quarterly reports for the Division's central region and noted nine instances where breaches of the terms and conditions of a community-based sentence occurred but breach proceedings had not been initiated. When breach proceedings are not initiated, the offender's criminal record is unaffected, resulting in the court not being aware of the breach should the offender appear before the court at a later date.

Recommendation 5.4

We recommend Correctional Services develop and implement controls to ensure compliance with policies and procedures related to community-based sentences.

5.40 We also identified one case in which an offender was determined by Correctional Services to be unsuitable for monitoring by community corrections staff due to the offender's offense history. As a result, a court's community-based sentence could

not be enforced by Correctional Services' staff due to safety and security concerns. We noted Correctional Services' policies and procedures provide for the safety of staff, but they do not provide guidance to address the inability to enforce the terms and conditions of a court-imposed community-based sentence due to safety considerations. However, a protocol dated June 12, 2006 between Correctional Services, the police and Public Prosecution Services has been drafted to address situations where the terms and conditions of a community-based sentence cannot be enforced. We advised management to include such guidance in Correctional Services' policies and procedures.

5.41 Systems - We reviewed the Justice Enterprise Information Network system, which is used to record and track all community-based sentences and the related terms and conditions. The system is also used to document all activities related to each case. We concluded that the system is adequate to record and track community-based sentences.

Intermittent Sentences

5.42 Our objective was to assess compliance with the policies and procedures used to monitor and enforce the terms and conditions of intermittent sentences. Our work focused on the custody portion of intermittent sentences and examined compliance with the policies and procedures to admit and release intermittent offenders, as well as those used to address situations where offenders do not report to the correctional facility as required by the terms and conditions of the sentence. We concluded there was general compliance with policies and procedures used to monitor and enforce the custodial terms and conditions of intermittent sentences. We did, however, identify instances of non-compliance with offender admittance and release policies and procedures.

5.43 Intermittent sentences are court-ordered incarceration sentences which are not for a continuous span of time. A common intermittent sentence is one that incarcerates an offender on weekends so the offender can remain employed and support his or her family. According to Correctional Services, for the period April 1, 2005 to March 31, 2006 there were 294 admissions to intermittent sentences. During this period 13 offenders failed to report to the correctional facility to commence their sentences and 75 individuals were charged for failing to report for one or more portions of their intermittent sentences.

5.44 Policies and procedures - There are detailed policies and procedures to guide staff in the admittance and release of offenders serving intermittent sentences. They also include guidance to assist staff in identifying instances of non-compliance with the terms and conditions of an intermittent sentence and action to be taken in these situations. Weekly directives are also used to provide additional guidance to staff.

5.45 Our audit focused on the policies and procedures used to admit and release intermittent offenders, and monitor and enforce the terms and conditions of intermittent sentences. We tested compliance with policies and procedures at

the Antigonish Correctional Facility and Central Nova Scotia Correctional Facility (Burnside). We examined the admittance and release processes at these two correctional facilities and noted differences in policies and procedures due to differences in facility size.

5.46 We observed 23 offenders being admitted and released, and assessed the process for compliance with the policies and procedures of the facility. We concluded Correctional Services is not in full compliance with admittance and release policies and procedures. We did, however, conclude terms and conditions of an intermittent sentence are monitored and enforced. We also noted that instances of non-compliance with the terms and conditions of an intermittent sentence are reported to the appropriate authorities on a timely basis.

5.47 The following instances of non-compliance with admittance and release policies and procedures were noted.

- Offenders were not required to shower upon admittance.
- Three offenders and their property were not thoroughly searched and metal detectors were not used.
- Offender property was not subject to an x-ray process due to lack of equipment.
- Bed space was not assessed for damage or prohibited items in the case of three offender discharges.
- Documentation deficiencies were noted in all cases we examined.

5.48 We also noted several instances where current practice differed from Correctional Services' policies and procedures. We advised management that current practices should be reviewed and, where appropriate, policies and procedures updated or current practices modified to ensure compliance with documented policies and procedures. Management advised us they have reviewed the intermittent sentence process and will be updating policies and procedures based on the results of the review.

Recommendation 5.5

We recommend Correctional Services complete its update of intermittent sentence policies and procedures on a timely basis. We further recommend Correctional Services develop and implement controls to ensure compliance with intermittent sentence policies and procedures.

5.49 Systems - Intermittent sentences are recorded in the Justice Enterprise Information Network system, which is in the process of being implemented. We reviewed the system and found it is adequate to record and track intermittent sentences. We

identified the need to implement controls to prevent and/or detect errors. We also identified the need for additional staff training on the system. Management advised us that additional staff training is planned and controls would be improved as the system is implemented.

5.50 Infrastructure - The Antigonish Correctional Facility houses intermittent sentence offenders with the general inmate population in double occupancy cells. This is not in accordance with Correctional Services policy because it increases the risk of intermittent sentence offenders bringing contraband items to other inmates, and the potential for other inmates to pressure the offenders to do so. Upon enquiry, we were informed all other Provincial adult facilities separate intermittent sentence offenders from other inmates.

5.51 In addition, cells at the Antigonish facility are approximately 30.5 square feet in size. The standard established by Correctional Services is 80 square feet and cells are to be single occupancy. We also reviewed a report of the Nova Scotia Fire Marshal that indicated this facility does not meet current fire code standards. These conditions present a risk to the safety of offenders and staff. In June 2006, Executive Council provided approval for preliminary site selection and costing for a new correctional facility. As of the date of this report, replacement of the Antigonish facility had not been approved. Correctional Services is also seeking approval to replace the Cumberland Correctional Facility.

5.52 Roles and responsibilities - We reviewed staff position descriptions, policies and procedures, and surveyed staff to determine if roles and responsibilities related to intermittent sentences are clearly defined, assigned and communicated. We concluded that roles and responsibilities are clearly defined, assigned and communicated.

Conditional Releases

5.53 Our objective for the audit of conditional releases was to assess compliance with policies and procedures used to administer conditional releases, including those used to ensure the terms and conditions of a conditional release are adhered to. Due to inadequate file documentation and a need to clarify certain policies, we were unable to conclude as to whether or not conditional release policies and procedures had been fully complied with. However, we did conclude terms and conditions of conditional releases are monitored and enforced in accordance with policy.

5.54 A conditional release is a temporary leave of absence from a correctional facility granted to an offender for medical, humanitarian or rehabilitative purposes. Eligibility is determined by Correctional Services. For adult offenders, conditional releases can be issued for a maximum period of fifteen days if approved by head office, or for a maximum of one day if approved by the superintendent of a correctional facility. For youth, the maximum length of a conditional release is thirty days. A conditional release can also take the form of a daily release where the offender returns to the correctional facility each day.

5.55 Each conditional release has terms and conditions attached to it. The terms and conditions are determined by Correctional Services. Typical terms and conditions include, but are not limited to, keeping the peace, acceptance of telephone checks from Correctional Services staff, curfews, and date and times to return to the correctional facility.

5.56 Policies and procedures. There are detailed policies and procedures to guide staff in the administration of conditional releases, though they do not address daily releases. The policies and procedures provide guidance to assist staff in identifying instances of non-compliance with the terms and conditions of the conditional release and action to be taken in such instances.

5.57 We focused on the administration of conditional releases, including temporary absences. Temporary absences are approved by the superintendent of the correctional facility and must begin and end within a calendar day. Conditional releases also include daily releases which are daily temporary absences issued for periods in excess of one calendar day. The offender is required to return to the facility each day. We tested 36 conditional release applications, of which 19 were approved and 17 were denied or withdrawn. Head office approved 14 and the superintendent of the correctional facility where the offender was incarcerated approved 5.

5.58 The following observations were made during our testing.

- All approved conditional releases were for authorized purposes.
- All offenders issued a conditional release were eligible to receive it.
- Six of the conditional releases were for periods in excess of the maximum period allowed by the conditional release policy. Included in the six were five daily releases which are not specifically addressed by the current policy.
- Correctional Services' policy requires input from the crown prior to the approval of a conditional release for a restricted offender. Due to a lack of documentation, we were unable to determine if input from the crown had been obtained in seven instances where a restricted offender was granted a conditional release.
- We also noted other documentation deficiencies in all 19 approved conditional releases. As a result we were unable to determine if policy had been fully complied with.

5.59 During our testing, we identified five temporary absences for restricted offenders which were approved by the superintendent of the correctional facility. The temporary absences were for a one-day period and were escorted. Policies do not specifically provide the authority for superintendents to approve temporary absences for restricted offenders even when escorted. Senior management of Correctional Services advised us that superintendents have the authority to approve temporary absences for restricted offenders provided the offender is escorted. We

advised Correctional Services to clarify the authority of superintendents as it relates to restricted offenders.

5.60 Our examination of conditional release identified instances of non-compliance with policies and procedures, and areas needing improvement. We believe a review of policies and procedures is required.

Recommendation 5.6

We recommend Correctional Services develop controls to ensure there is appropriate compliance with its conditional release policies and procedures, and adequate documentation is maintained to support compliance. We further recommend that policies and procedures be updated to address all types of conditional releases and staff authorities.

5.61 Monitoring and enforcement - Each conditional release has terms and conditions attached to it. Offenders must adhere to these restrictions. The primary method of enforcing terms and conditions of a conditional release while the offender is in the community is for Correctional Services staff to place phone calls to the offender. The offender is required to be at the location to answer or return the call within a defined period of time. Correctional Services also has processes to address the risk that offenders will have calls forwarded to another location. Our testing of monitoring and enforcement practices found that staff is complying with policies and procedures.

5.62 Roles and responsibilities - We reviewed staff position descriptions, policies and procedures, and surveyed staff to determine if roles and responsibilities related to conditional releases are clearly defined, assigned and communicated. We concluded that roles and responsibilities are clearly defined, assigned and communicated; except as noted in paragraph 5.59.

5.63 Systems - Conditional releases are recorded in the Justice Enterprise Information Network system, which is currently in the process of being implemented. We reviewed the system and found it was adequate to record and track conditional releases. We did, however, identify the need to implement controls to prevent and/or detect errors.

CONCLUDING REMARKS

5.64 Performance information currently available is inadequate to assess the efficiency and effectiveness of Correctional Services programs and services. Correctional Services needs to ensure its current performance measurement initiative leads to the development and implementation of adequate performance measures, indicators and targets for all its key activities. Such information should enable an assessment of the efficiency and effectiveness of Correctional Services' programs and services in contributing to a just, peaceful and safe society. We acknowledge the Department has made significant progress in this area.

5.65 Correctional Services has developed numerous policies and procedures to help ensure safety and security for both staff and offenders, as well as for the public. Our audit identified inadequate file documentation and inadequate compliance with policies and procedures in several areas. We concluded there is a need to review and update existing policies and procedures in a number of areas. We also noted the need to improve controls to ensure compliance with policies and procedures so the safety and security of staff, offenders and the public are not compromised. We encourage Correctional Services to address the concerns identified in our report in a timely manner.

Exhibit 5.1 **Correctional Facility Locations, Capacities and Staffing Levels**

Correctional Facility	Location	Capacity		Staffing levels	
		Male	Female	Full-time	Part-time
Adult Facilities:					
Cape Breton Correctional Facility	Gardiner Mines (near Sydney)	96	--	60	35
Central Nova Scotia Correctional Facility	Dartmouth	224	48	143	47
Antigonish Correctional Facility	Antigonish	17	--	13	7
Cumberland Correctional Facility	Amherst	27	--	17	8
Southwest Nova Scotia Correctional Facility	Yarmouth	38	--	26	6
Sub-total - Adult		**402**	**48**	**259**	**103**
Youth Facilities:					
Nova Scotia Youth Centre	Waterville	96	12	101	45
Cape Breton Youth Detention Facility (note 1)	Glace Bay	4	1	1	9
Sub-total - Youth		**100**	**13**	**102**	**54**

Note 1 - The Cape Breton Youth Detention Facility is a short-term detention facility.

DEPARTMENT OF JUSTICE'S RESPONSE

The Correctional Services Division, Department of Justice appreciates the analysis which was conducted by the Auditor General with respect to Correctional Services operations. Constructive recommendations have been made and action plans to address those recommendations are in process. Correctional Services does not agree with a few of the recommendations which were made and the reasons for this disagreement are identified in the response to the recommendations and findings as outlined below.

Recommendation 5.1

We recommend that Correctional Services develop, implement and report performance measures, indicators and targets for all key programs and services to enable an assessment of the efficiency and effectiveness of the Division.

Comment - Agree with recommendation.

The identification of recidivism rates is part of a national initiative which will provide comparative measures between jurisdictions. It is intended that these recidivism measures will be in place by 2008.

Recommendation 5.2

We recommend Correctional Services clearly define, assign and communicate staff roles and responsibilities for performance information and reporting.

Comment - Agree with recommendation.

Greater clarity will be provided with respect to staff responsibility for performance information and reporting.

Recommendation 5.3

We recommend Correctional Services modify its policies and procedures to include a requirement for formal, documented review and approval of pre-sentence reports. We further recommend that a scheduling and tracking system be implemented to ensure reports are prepared and submitted to the courts in accordance with policy.

Comment - Agree with recommendation as stated.

Correctional Services does not agree with finding 5.29 which states that financial information provided by offenders be subject to a verification process to enhance the credibility of the information submitted to the court. It would be extremely difficult and time-consuming to verify this information and the end result would be of little use to the court. Offenders do not overstate

their income. Indeed, they tend to understate their financial means in order to avoid financial penalties. No jurisdiction in Canada undertakes the verification of offender assets, cash flow and financial commitments. Again, the end result would not be of use to the court, particularly when the court can establish, with the assistance of defence counsel, an arrangement for restitution payments or a fine penalty. Failure to comply with financial penalties ultimately results in a verification process in order to prove wilful failure.

Finding 5.30 suggests that pre-sentence reports which are prepared by experienced staff should be subject to review and sign-off by a supervisor. Although it is agreed that reports which are prepared by senior staff should be reviewed on a random basis, it would be inappropriate to require that senior staff reports be vetted by a supervisor in all cases. Such a process would be counter-productive from a staff trust perspective and unnecessary if a random audit process, as proposed, is in place. Approximately 3,000 pre-sentence reports are prepared by probation officers in Nova Scotia each year. It is noted in finding 5.33 that both crown prosecutors and legal aid lawyers indicated that pre-sentence reports are generally timely and meet their needs.

Recommendation 5.4

We recommend Correctional Services develop and implement controls to ensure compliance with policies and procedures related to community-based sentences.

Comment - Agree with recommendation.

Correctional Services will review and update compliance processes as required.

There is not agreement, however, with finding 5.39 which suggest that charges be laid in each instance where a breach of a condition of probation is identified.

Probation officers in Nova Scotia, similar to other provinces, lay a large number of breach charges against probationers, but they do so with discretion. Probationers are cautioned or warned by probationers when minor technical violations of an order occur and these warnings are identified to the court when repeated violations ultimately result in a breach charge.

The court expects probation officers to use discretion, similar to the expectation that police officer will not bring charges forward in each instance where a person has been found to be driving over the speed limit by two kilometres per hour. The court would not accept a zero tolerance approach to technical violations and is also not resourced for that purpose.

Recommendation 5.5

We recommend Correctional Services complete its update of intermittent sentence policies and procedures on a timely basis. We further recommend Correctional Services develop and implement controls to ensure compliance with intermittent sentence policies and procedures.

Comment - Agree with recommendation.

Recommendation 5.6

We recommend Correctional Services develop controls to ensure there is appropriate compliance with its conditional release policies and procedures, and adequate documentation is maintained to support compliance. We further recommend that policies and procedures be updated to address all types of conditional releases and staff authorities.

Comment - On July 1, 2006 the new *Correctional Services Act* came into force. The new Act provides an update framework for Corrections programs, services and operations including conditional releases. Since July 1, 2006 the Division has been updating its policies and procedures to align them with the new legislation. Up to date policies and procedures for conditional release will be in place early in 2007.

Clarification pertaining to findings 5.57 and 5.58 are provided as follows:

5.57 Conditional sentences are authorized by the Manager, Policy and Programs for continuous, uninterrupted periods up to the statutory limits for daily release. Superintendents only have the authority to release offenders up to one day, with limitations. This process is adhered to.

5.58 Correctional Services does not release offenders for periods which exceed the maximum period allowed by conditional release policy. Continuous releases within the maximum time frame are approved on a day-to-day basis and require a new authorization certificate each day that the offender is released. Consequently, Correctional Services does not exceed the maximum allowed in the policy and the practice is in compliance with the *Prison Reformatories Act* and the *Youth Criminal Justice Act* for adult and youth offenders respectively.

TRANSPORTATION AND PUBLIC WORKS

6 PLANNING AND MANAGEMENT OF HIGHWAY PROJECTS

BACKGROUND

6.1 The Department of Transportation and Public Works is responsible for the construction, maintenance and operation of Provincial roads and bridges, including the planning and management of highway projects. The Provincial highway system consists of over 23,000 kilometres of roads and 4,100 bridges. This does not include roads and bridges which are the responsibility of municipalities.

6.2 The Department's strategic goals related to highways, as outlined in its 2005-2006 Business Plan, are to enhance the value and safety of the transportation system and to provide infrastructure and related policies necessary to support the economic growth of the Province.

6.3 The Department's Highways Branch, which represents approximately 80% of the Department's budget and staff, is comprised of two divisions. The Engineering and Construction Division is responsible for activities related to the highway capital construction program, including planning, engineering design, tendering and construction. The Maintenance and Operations Division undertakes activities such as snow removal, surface repair, asphalt patching, and ditching and graveling. (See Exhibit 6.1). The Province is divided into four districts for highway operations purposes, each served by a district office and multiple field offices.

6.4 The Department spent $163.4 million on major highway and bridge construction and repaving projects in 2005-06, the majority of which were contracted out to private-sector companies. The Department also spent approximately $58.1 million on highway and bridge maintenance activities.

6.5 The average age of pavement on provincial roads is 21 years, compared to the Canadian average of 14 years. A 2001 Department study concluded that Nova Scotia's roads and bridges needed about $3.4 billion in capital construction work over 10 years (see Exhibit 6.2). While capital spending has increased significantly in recent years, it has not been at the level determined by the study to be necessary to halt the overall deterioration of the Province's highway system (see Exhibit 6.3).

6.6 Once a road has been constructed, maintenance and periodic rehabilitation activities are required to preserve the structure. Timing of maintenance and rehabilitation activities is critical to minimize costs. Preventative treatment costs less per kilometer than surface rehabilitation. As a rule of thumb, rehabilitation costs are approximately 50% more when lifecycle preventative maintenance strategies are not employed. If allowed to deteriorate too far, significant expenditures can be required to bring a road back to an acceptable condition. The Department's prioritization strategy is to focus on the worst roads first. This

is a reflection of the high average age of the Province's roads, and that many are beyond the point of preventative maintenance and require surface rehabilitation.

RESULTS IN BRIEF

6.7 The following are the principal observations from this audit.

- The Department has long-range, short-term and annual plans for highway projects. Processes for review and updating of long-range and short-term plans have not been developed.

- The Department has determined that annual funding for capital highway projects is currently not sufficient to meet the Province's long-term highway transportation system needs. Accordingly, the Department has prioritization processes for selecting highway projects. However, processes and information systems used by the Department are not sufficient to ensure that the projects selected will contribute, to the fullest extent possible, toward the accomplishment of the Department's strategic objectives.

- There are regular reporting and monitoring practices for highway projects. However, there are weaknesses in the information and reporting systems which could compromise the security and accuracy of the data collected and reported.

- The Department has an appropriate project management methodology for highway projects. However, we noted instances where the Department's project management methodology was not consistently applied. The Department has developed project review processes which would provide assurance that staff are carrying out their duties and managing highway projects in accordance with the Department's policies. However, no project reviews were performed during the previous year.

AUDIT SCOPE

6.8 In August 2006 we completed a broad scope audit of the planning and management processes for highway projects at the Department of Transportation and Public Works. The audit was conducted in accordance with Section 8 of the Auditor General Act and auditing standards established by the Canadian Institute of Chartered Accountants, and included such tests and procedures as we considered necessary in the circumstances.

6.9 The objectives for this assignment were to assess:

- the adequacy of long-range and annual planning processes and information in place to ensure highway projects contribute toward accomplishing the Department's strategic objectives;

- the Department's accountability framework and related project performance measurement system for highway projects; and

- the adequacy of project management processes for planning, executing, monitoring and controlling, and completing highway projects.

6.10 Our audit focused on processes used for highway projects under the Department's capital program. Accordingly, we did not examine the practices used for smaller highway projects that are considered maintenance in nature, nor activities relating to the operation of the highway system (see Exhibit 6.1). Highway projects included in our audit comprise the roadways and any bridges and overpasses that are part of the road system.

6.11 Our audit included interviews with management and staff; review of systems, processes, and policies; examination of other documentation deemed to be relevant; and testing of project files. Criteria were developed to assist in the planning and performance of the assignment.

6.12 The criteria used in our examination of the Department's project management practices were derived from the Project Management Institute's *A Guide to the Project Management Body of Knowledge* (PMBOK Guide, Third Edition). The PMBOK Guide documents generally accepted project management knowledge and practices that are applicable to most projects, most of the time. There is widespread consensus about the value and use of these practices. Other criteria used were developed specifically for this assignment. Criteria used in this audit were discussed with senior management of the Department and accepted as appropriate.

PRINCIPAL FINDINGS

Long-range and Annual Planning for Highway Projects

6.13 We assessed the Department's long-range and annual planning processes for selecting highway projects. We sought to determine if the planning processes resulted in the selection of highway projects that contribute toward accomplishing the Department's strategic objectives. We reviewed the Department's 2005-06 Business Plan and examined various highway project planning documents and the processes used to develop them. We concluded that the Department's strategic objectives are at such a high level that all highway projects contribute toward their accomplishment. However, we could not conclude on whether the planning processes for prioritizing highway projects ensured that projects selected would contribute to the fullest extent possible toward the Department's strategic objectives. The Department does not have systems in place, such as a pavement management system, to make this determination.

6.14 Long-range plans - The Department conducted a study in 2001 to determine the funding requirements necessary to maintain and develop the Province's highway system over the following ten years. The study looked at five major program areas:

system expansion, pavement preservation, new paving, gravel road rehabilitation, and bridge rehabilitation and repair. It assessed the needs in those areas for the coming decade and the financial implications, and indicated where priorities should be placed under alternative funding scenarios. The study concluded that about $3.4 billion in capital construction work over 10 years was needed (see Exhibit 6.2). Detailed information on potential highway projects was developed to support the study. Internal documents supporting the ten-year needs study were updated in 2004-05 for Departmental information purposes.

6.15 The Department also developed and documented a Primary Arterial Highway System Vision for 100 series highways. This plan has a long-term focus on expansion of the primary highway system to enhance and support the economic growth of the Province (see Exhibit 6.4). A framework for determining which projects should have priority was developed and is updated periodically.

6.16 In January 2005, the Department prepared a draft of a three-year planning document that identifies highway project priorities with expected funding allocations. At the time of our audit, the document had not been finalized. Management intends that the three-year plan be updated annually. However, processes for review and updating have not been put in place. The Department also has planning documents specific to other programs, such as the Steel Truss Bridge Program.

Recommendation 6.1

We recommend that processes be established for the review and updating of long-range and shorter-term highway plans on a timely basis to provide for use of current information in the prioritization of road projects.

6.17 Annual plans - The Department develops an annual highway construction program document based on its mid- and long-range plans and other considerations, including availability of funding. The Department receives block funding approval from Executive Council for most of the program components through the tangible capital asset approval process. Other funding is provided through the annual Department budgeting process.

6.18 Projects are prioritized through the use of defined and weighted criteria, which vary based on the type of project (see Exhibit 6.5). Information on prospective projects is collected and reviewed by head office management and staff. Projects are balanced across the four districts in order to distribute work in accordance with the location of available resources, considering both Department and contractor resources. Management indicated that recommended projects are presented to the Minister for approval.

6.19 Changes may be made to the annual plan during and after the approval process, for a variety of reasons. The Department indicated that procedures have recently been established for documenting changes to the annual plan.

6.20 Following approval of the annual highway construction program, and prior to tendering, capital repaving projects may undergo a review process which establishes the rehabilitation approach and methodology to be used and any other special considerations for the project. The review process facilitates the preparation of precise and accurate project tender documents.

6.21 Not all eligible projects are reviewed, mainly due to insufficient lead time prior to tendering. In 2004, 32 of 71 eligible projects (45%) were not reviewed. In 2005, 51 of 95 projects (54%) were not reviewed.

Recommendation 6.2

We recommend the Department establish criteria for determining which repaving projects should undergo a rehabilitation review and have such projects reviewed prior to tendering to ensure the most appropriate and economical rehabilitation measures are used.

6.22 Information processes and systems - The Department gathers information from a variety of sources to develop its annual and longer-range plans, including priority recommendations from its district offices and technical data such as road conditions and traffic volumes. As indicated in paragraph 6.18, staff analyzes and interprets the information and assigns priority to projects based on weighting of relevant factors. However, we noted that the Department does not have the information and systems in place to ensure the most appropriate highway and bridge projects are selected, and that available funding is used to maximize the benefits from investment in highway projects.

6.23 The Department recently acquired a bridge management system to maintain inventory, inspection and other data on the Province's bridges. When fully operational, the system is expected to support the selection of priority bridge projects through the use of deterioration and costing models, and the provision of a *health index* for each structure. The system is expected to allow the Department to explore the impact of a range of funding options on the overall state of the bridge inventory and present options for rehabilitation of each structure.

6.24 In the 2001 ten-year study (see paragraph 6.14), the Department identified the need for a similar system for pavement management. Such a system would integrate the data and information gathered on the road inventory to enable the Department to more effectively identify projects that will maximize the benefit from its investment in road construction and rehabilitation.

Recommendation 6.3

We recommend that the Department work toward fully implementing the bridge management system on a timely basis. In addition, the Department should adequately address similar information needs for its management of pavement.

Accountability Framework and Performance Measurement

6.25 We examined the Department's accountability framework for highway projects. We concluded there is an appropriate accountability framework. Roles, responsibilities, authority and accountability are assigned through job descriptions, manuals, on-the-job training, supervision and performance evaluations. The manuals and other documents provide sufficient guidance and direction on managing highway projects. We noted that some job descriptions have not been updated for many years. We advised the Department that job descriptions should be updated on a timely basis to reflect current roles and responsibilities and organizational structures in the Department.

6.26 We also looked at the performance measurement systems for highway projects and found there are regular reporting and monitoring practices. However, there are weaknesses in the information and reporting systems which could compromise the security and accuracy of the data collected.

6.27 There are a number of information and reporting systems used by the Department for managing its highway projects which are based on a variety of technologies. The systems are not fully integrated, resulting in the same data being entered into more than one system. Some of the systems are out-dated. Passwords and other security measures are not used for most of the systems. In many cases, data must be gathered from various systems and consolidated into spreadsheets for reporting purposes. This is a time-consuming and inefficient process.

6.28 In 2004-05 the Department undertook a Highway Capital Management Program (HiCaMP) study to look at business processes and underlying data requirements for managing the Department's highways and bridges capital program. In addition to the weaknesses noted in paragraph 6.27, the HiCaMP study reported deficiencies related to cash flow forecasting, timeliness of reporting, and project cost information.

6.29 The long-term goal of the HiCaMP project is to provide more timely management information, to improve accessibility and integration of data, and cash flow forecasting. There is a three-year implementation plan for this project, with an estimated cost of $1.8 million to $2.3 million and annual licensing costs of $420,000. Completion is planned for 2009.

Recommendation 6.4

We recommend that the Department work toward fully implementing the highway capital management information system on a timely basis.

Project Management Processes

6.30 Our audit examined the methodology and practices used by the Department to manage its highway projects. Our examination included determining the project

planning, executing, monitoring and controlling, and closing procedures used by the Department, and comparing them to the Project Management Institute's *A Guide to the Project Management Body of Knowledge* (PMBOK Guide, Third Edition). We concluded that the Department has an appropriate project management methodology for highway projects.

6.31 The Department has developed project review processes which would provide assurances that staff are carrying out their duties and managing highway projects in accordance with the Department's policies, as specified in the field manual and other documents. Project reviews may involve a detailed examination of a completed contract and its project records, or a summary review of records for a project in progress. However, we noted that no project reviews were carried out on highway projects during the previous year.

6.32 We examined six highway projects to determine if the project management methodology and practices described to us were being followed (Exhibit 6.6). The projects were selected to include each district in the Province, significant program areas, and supervision by different project engineers. Our work included an examination of project records and discussions with project staff.

6.33 We found instances where there were differences in the way the Department's project management methodology had been applied. For example, there were inconsistencies relating to file documentation and the use of diaries and project schedules. For one project, we were unable to determine if the project management methodology and practices were followed due to insufficient documentation and unavailability of a project staff member who was no longer working for the Department. Required project documents, such as the project engineer's diary, pre-job minutes and job ledger were not completed, not properly prepared, or were missing from the files and could not be located. We were informed that the initial project engineer left the Department before the project was completed, and a second project engineer completed the project.

Recommendation 6.5

We recommend that the Department reestablish its project reviews as a means of providing assurance that management of highway projects is consistent throughout the Province and in accordance with the Department's policies. Further, the reviews should ensure complete and consistent file documentation is maintained for highway projects.

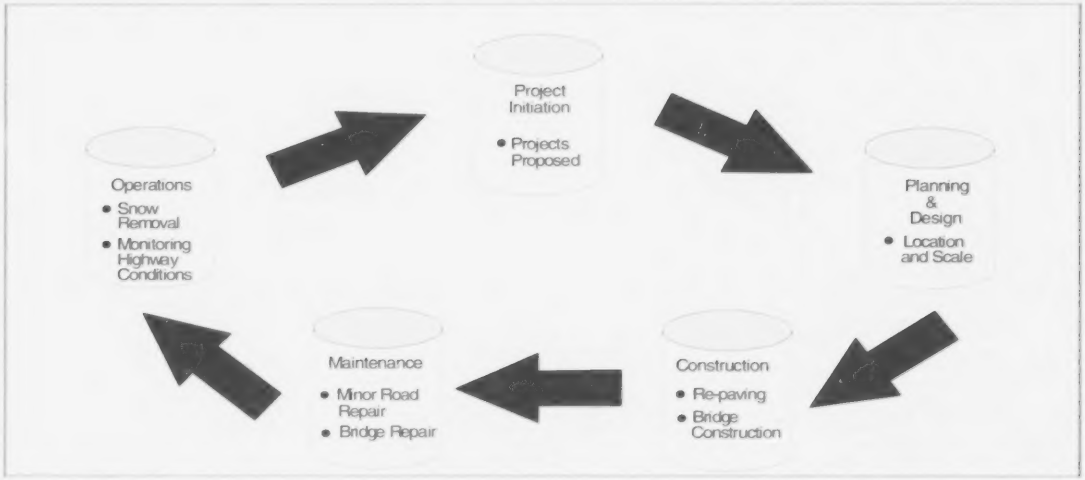
CONCLUDING REMARKS

6.34 It is important that the Department's resources be used to maximize the benefits from the Province's investment in highway projects. The Department has planning and prioritizing processes for selecting highway projects that contribute toward accomplishing the Department's strategic objectives. However, systems and

information are not sufficient for the Department to determine if the projects selected contribute to the strategic objectives to the fullest extent possible. There is a need for the Department to complete its various information technology projects as soon as practical to provide the information it needs to select and manage highway projects.

6.35 The Department's project management methodology for highway projects is appropriate. Weaknesses in information and reporting systems need to be addressed to ensure projects are adequately monitored. In addition, project reviews need to be reestablished to help ensure full and consistent application of Department policies in the conduct of highway projects.

Exhibit 6.1 **Project Life Cycle**



Source: Department of Transportation and Public Works

Exhibit 6.2 **Summary of 10-Year Captial Construction Needs by Highway and Bridge Program Area**

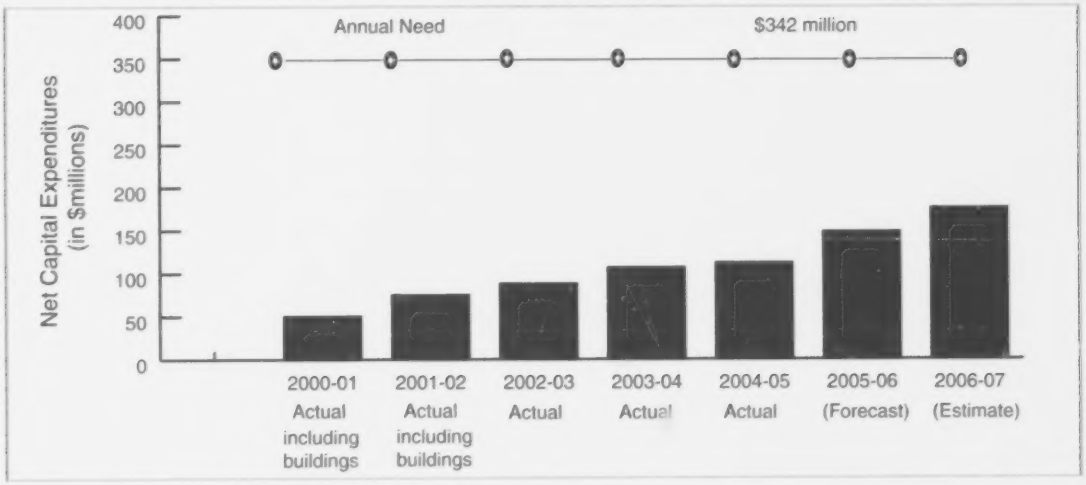
Highway and Bridge Program Area	10-Year Needs ($ millions)
System Expansion - primary highway	$789
System Expansion - secondary highway	260
Pavement Preservation - 100 series highway	301
Pavement Preservation - secondary highway	1,132
New Paving	78
Gravel Road Rehabilitation	301
Bridge Rehabilitation and Repair	563
	$3,424

Note: Over the 10 years from 2001, the Department determined that it should spend in total an average of $342 million per year to improve highways and bridges.

Source: Department of Transportation and Public Works' Report on Nova Scotia's Primary and Secondary Highway Systems: 10-Year Needs, May 3, 2001

Net Capital Expenditures on Highways and Bridges

Exhibit 6.3



Source: Department of Transportation and Public Works

New Highway Development Timeline

Exhibit 6.4

Project Identification
Functional Design 1 to 4 years
Environmental Assessment 6 months - 2 years
Detailed Design 6 months - 1 year
Land Purchase 6 months - 2 years
Construction 1 - 5 years

Source: Department of Transportation and Public Works

Exhibit 6.5 Project Prioritization Processes

Selection of highway projects to be included in the Department's capital program is based on priority ranking of projects within each program category, as limited by budget funds allocated to each category.

Repaving projects - The Department's individual district offices recommend a list of projects, ranked according to their priorities. The proposed project areas are evaluated for physical condition through collection and analysis of various technical data. Ratings and weightings are applied for surface roughness (30%), pavement condition (35%), traffic volumes (20%) and maintenance/service considerations (15%), to determine the priority ranking of projects.

Construction/expansion on the 100 series highways - Highway planning staff review the list of projects included in the primary arterial highway system plan. Key factors considered in the prioritization of these projects are access control, number of lanes, traffic volume, level of service, collision rate and average speed. Weightings are applied for traffic volume (25%), collision rate (30%), speed (10%) and policy (35%). The policy factor includes, among other things, subjective considerations relating to economic impact.

Bridge projects - Bridges are inspected and assessed by the Department's engineers. Priority is determined based on condition, serviceability and operational factors. Condition is determined by detailed inspection using a national bridge inspection standard protocol and is weighted at 50%. Serviceability assesses things such as clearances, roadway alignment and width, and traffic volume considerations, and is weighted at 35%. Operational factors are determined by each district and include importance of the bridge to the community and maintenance considerations. Operational factors are weighted at 15%.

Other project categories - Project prioritization is based on the priority recommendations from district offices, together with other factors, as applicable, such as collision statistics and traffic volumes.

Source: Department of Transportation and Public Works

Bridge and Highway Projects Examined for Compliance with Project Management Methodology

Exhibit 6.6

Program Area and Type of Work	Project	Contract Amount
Construction on 100 series highways		
Subgrade construction, grading and gravelling	Highway 103, from approximately 2.0 km East of Exit 5 to approximately 1.0 km West of Exit 5; approximately 2.9 km	$3,743,250
Repaving - other 100 series highways		
Full depth reclamation with expanded asphalt stablization and asphalt concrete repaving - method specification	Minesville Road from Trunk 7 southerly to Route 207, approximately 7.1 km	$1,281,110
Upgrading, gravelling and repaving - end product specification	Route 223, from Highway 125 to 200 m east of Scotch Lake Road; approximately 6.60 km	$2,155,263
Pulverization, gravelling and asphalt concrete patching and repaving - end product specification	Route 289, from Southside Road easterly to the intersection of Route 336, approximately 11.1 km	$2,389,170
Pulverization, gravelling, asphalt concrete patching and repaving - end product specification	Sissiboo Road, from Trunk 1 in Weymouth to Gilbert's Cove Road, approximately 10.8 km	$1,782,895
Truss Bridge Replacement		
Construction of bridge and approaches	Lower Eel Creek Bridge (CUMO79) located on Route 301 west of Trunk #6	$2,458,783

Note: Contract amount is amount tendered by successful bidder and does not include any contractor extras or Department of Transportation engineering costs and contingencies.

Source: Department of Transportation

DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS' RESPONSE

The Department would like to thank the staff of the Office of the Auditor General for their courtesy and professionalism while conducting their audit of our capital planning and management of highway projects. In general, the Department accepts and agrees with the findings of the audit. The audit outlines five specific recommendations for which we provide the following comments:

1. "We recommend that processes be established for the review and updating of long-range and shorter term highway plans on a timely basis to ensure current information is used in the prioritization of road projects".

   The Department is in agreement with this recommendation and have recently developed a ten year funding allocation and capital capacity plan as well as started the development of rolling three year project plans for the major funding blocks outlined in the ten year plan.

2. "We recommend the Department establish criteria for determining which repaving projects should undergo a rehabilitation review and ensure such projects are reviewed prior to tendering to ensure the most appropriate rehabilitation techniques are used".

   The Department introduced the above noted "peer review" process several years ago. It is our intent to apply it to all TCA repaving and rehabilitation projects for the secondary road system. The process is not particularly relevant to 100 series repaving projects which have more straightforward rehabilitation techniques or to small (i.e. non TCA) type repaving projects and it is not our intent to utilize the peer review process for these types of projects.

3. "We recommend that the Department work toward fully implementing the bridge management system on a timely basis. In addition the Department should adequately address similar information needs for its management of pavement".

   The Department is continuing work on the development of its bridge management and inspection program. The Department launched a pavement management system project for the 100 series system in early fall of this year. Once the system is up and fully functional it will be expanded to portions of the secondary road system.

4. "We recommend that the Department work toward fully implementing the highway capital management information system on a timely basis."

   The Department concurs with this recommendation and expects to start using portions of the HiCamp System in 2007/2008 and to have it full implemented by fiscal 2009/2010.

5. "We recommend that the Department re-establish its project reviews as a means of providing assurance that management of highway projects is consistent throughout the Province and in accordance with the Department's policies. Further, the reviews should ensure complete and consistent file documentation is maintained for highway projects".

The Department accepts the above noted recommendation. The staff who conduct the highway contract audits were utilized to conduct a series of RIM contract audits during the period of the OAG audit of our capital program. Management at the Department was of the opinion that as the RIM program has grown, some internal audit effort should be put into ensuring that RIM projects were carried out in a manner similar to the larger capital program audits. The RIM audits have been completed and the staff have returned to their more usual capital program audits.

Follow Up Of Prior Audits

7 FOLLOW UP OF 2003 AUDIT RECOMMENDATIONS

BACKGROUND

7.1 In 2002, the Report of the Auditor General included formal recommendations for the first time. At that time, the Auditor General made a commitment to follow up on implementation in three years. Our 2002 recommendations were followed up in 2005 (see Chapter 5 of December 2005 Report of the Auditor General). During the fall of 2006, we followed up on the implementation status of the 2003 recommendations. However, audit work reported in 2005 and thereafter will be followed up after two years because we believe that two years is sufficient time for auditees to address our recommendations.

7.2 Our review was structured to enable us to provide *moderate or review level assurance* on the implementation status. This level of assurance is less than for an audit because of the type of work we performed. An audit would have enabled us to provide high level assurance but would have required a significant increase in the resources devoted by the Office of the Auditor General to the follow-up work.

7.3 Our review was based on written representations by government management which we substantiated through interviews and review of documentation. *Moderate assurance*, in the context of this assignment, means performing sufficient verification work to satisfy the reviewer that *the implementation status as described by government is plausible in the circumstances*. Further information on the difference between high and moderate assurance is available in the *Canadian Institute of Chartered Accountants Handbook*, Section 5025 - Standards for Assurance Engagements.

7.4 For each 2003 recommendation, we requested government management responsible for the area to complete a written self-assessment of progress on implementation of the Office's recommendations. We also requested management provide supporting information. Progress on each recommendation was summarized by the following descriptions.

- Complete
- Work in progress
- Planning stage
- No progress to date, but plan to take action
- Action no longer required or appropriate
- Do not intend to implement recommendation
- Other

7.5 Our verification focused on whether self-assessments and information provided by management were *accurate*, *reliable* and *complete*.

RESULTS IN BRIEF

7.6 The following are the principal observations from this review.

- We requested government management self-assess progress in implementing the recommendations in the 2003 Report of the Auditor General and also the November 2003 Report of the Auditor General On the Consolidated Financial Statements of the Province of Nova Scotia For the Year Ended March 31, 2003 and Other Financial Reporting Practices. We performed a review of the self-assessments and supporting documentation and provide *moderate assurance* to readers of this chapter. Nothing has come to our attention to cause us to believe that the representations made by government management are not complete, accurate and reliable with one exception.

- In 2003, we made 129 (2002 - 90) recommendations to government which included a total of 137 (2002 - 104) sub-recommendations. Implementation status is summarized as follows. Comparative results from the 2002 recommendations are shown below in parentheses.

  - Complete - 48% (2002 - 35%)
  - Work in progress - 34% (2002 - 42%)
  - Planning stage - 2% (2002 - 7%)
  - No progress to date, but plan to take action - 5% (2002 - 7%)
  - Action no longer required or appropriate - 1% (2002 - 0%)
  - Do not intend to implement recommendation - 7% (2002 - 5%)
  - Other - 3% (2002 - 4%)

- Although government has completed implementation of 48% of our 2003 recommendations, a significant number (41%) are described as work in progress, planning stage or government plans to take action. Government does not intend to implement 7% of the recommendations. Three years have elapsed since these recommendations were made. Progress has been slow and we encourage government to proceed with addressing and implementing the remaining recommendations as quickly as practical.

- Government needs to take a direct role and responsibility for coordinating responses and actions on matters reported by the Auditor General. Government should regularly provide the House with its plans to deal with recommendations and other matters reported by the Auditor General. We recommend that government prepare and table its response to recommendations included in Reports of the Auditor General including plans for addressing them.

REVIEW SCOPE

7.7 The objective of this assignment was to provide *moderate assurance* on the implementation status of the recommendations in the 2003 Report of the Auditor

General and also the November 2003 Report of the Auditor General On the Consolidated Financial Statements of the Province of Nova Scotia For the Year Ended March 31, 2003 and Other Financial Reporting Practices. *Moderate assurance*, in this context, means performing sufficient verification work to satisfy the reviewer that *the implementation status as described by government is plausible in the circumstances.*

7.8 Our approach was based on written self-assessments by government management which we substantiated through interviews and review of documentation.

7.9 Our criteria were based on qualitative characteristics of information as described in the *CICA Handbook*. Management representations were assessed against the following criteria:

- Representations on implementation status should be accurate and neither overstate nor understate progress.
- Representations on implementation status should be reliable and verifiable.
- Representations on implementation status should be complete and adequately disclose progress to date.

PRINCIPAL FINDINGS

7.10 In 2003, we made 129 (2002 – 90) recommendations to government which included a total of 137 (2002 – 104) sub-recommendations. We requested government management responsible for the area to self-assess progress on implementation of the Office's recommendations. Progress on each recommendation was summarized by the following descriptions.

- Complete
- Work in progress
- Planning stage
- No progress to date, but plan to take action
- Action no longer required or appropriate
- Do not intend to implement recommendation
- Other

7.11 We were pleased to note the response and results of two government entities. The Nova Scotia Innovation Corporation had resolved or completed 86% of our 2003 recommendations. The Nova Scotia Municipal Finance Corporation had completed implementation of all of our 2003 recommendations.

7.12 We would also like to acknowledge the progress of Nova Scotia Business Incorporated (NSBI) in addressing recommendations included in our December 2004 report. On its own initiative, NSBI provided us with an update on its progress in addressing the report recommendations 18 months after we issued our report.

7.13 We performed a review of the self-assessments and supporting documentation and provide *moderate assurance* to readers of this chapter. Nothing has come to our attention to cause us to believe that the representations made by government management are not complete, accurate and reliable except for the following item.

> Chapter 3 - Central Financial Management System/SAP
> Recommendation 3.4 - *We recommend that government commission a full and independent audit of SAP security and control as soon as possible.*
>
> The Department of Finance self-assessed the status of their work as "Complete". In our view the status should be assessed as "Work in Progress". In 2003 we recommended that a full security audit be conducted. The Department has had four audits conducted that contained significant security examinations but the audits were not coordinated and were not primarily focused on security. We have no assurance that all appropriate aspects of security have been addressed. These audits also reported numerous and significant security issues.

7.14 The 137 individual and sub-recommendations are shown in Exhibit 7.1 to this chapter along with management's assessment of the implementation status.

7.15 The following table summarizes progress by department and overall. It shows that some departments have made more progress in addressing our recommendations than others.

Summary of Implementation Status - 2003 Recommendations

Chapter (2003 Report of the Auditor General)	Total Recommendations	Other	Do Not Intend to Implement	Action No Longer Required	No Progress to Date, but Plan to take Action	Planning Stage	Work in Progress	Complete
Government-Wide Issues								
Chapter 2 - Accountability and Financial Reporting	4 (100%)					1 (25%)	1 (25%)	2 (50%)
Chapter 3 - Central Financial Management System/SAP	20 (100%)					1 (5%)	8 (40%)	11 (55%) Note 1
Sub-total	24 (100%)					2 (8%)	9 (38%)	13 (54%)

Note 1 - Department of Finance has self-assessed the status of one recommendation as "complete" whereas we evaluate the status as "Work in Progress".

Community Services								
Chapter 4 - Housing Services	5 (100%)						3 (60%)	2 (40%)
Education								
Chapter 5 - Accountability of School Boards	7 (100%)		1 (14%)				1 (14%)	5 (72%)
Chapter 6 - Universities - Internal Control and Financial Management								
Department of Education	1 (100%)							1 (100%)
Dalhousie University	8 (100%)	1 (12%)	5 (64%)				1 (12%)	1 (12%)
Saint Mary's University	8 (100%)	1 (12%)	1 (12%)		1 (12%)		1 (12%)	4 (52%)
University College of Cape Breton	8 (100%)		2 (24%)				3 (38%)	3 (38%)
Université Sainte-Anne	8 (100%)		1 (12%)		3 (38%)		2 (25%)	2 (25%)
Sub-total	40 (100%)	2 (5%)	10 (25%)		4 (10%)		8 (20%)	16 (40%)
Energy								
Chapter 7 - Oil and Gas Exploration and Production	3 (100%)						2 (67%)	1 (33%)
Health								
Chapter 8 - IWK Health Centre	13 (100%)	1 (8%)					5 (38%)	7 (54%)
Chapter 9 - Long-term Care	16 (100%)				2 (13%)	1 (6%)	8 (50%)	5 (31%)
Chapter 10 - Payments to Physicians	8 (100%)	1 (12%)					5 (63%)	2 (25%)
Sub-total	37 (100%)	2 (5%)			2 (5%)	1 (3%)	18 (49%)	14 (38%)
Justice								
Chapter 11 - Court Services	4 (100%)						2 (50%)	2 (50%)
Office of Health Promotion								
Chapter 12 - Nova Scotia Gaming Foundation - Review of Operations	9 (100%)				1 (11%)		1 (11%)	7 (78%)
Crown Agencies and Corporations								
Chapter 13 - Municipal Finance Corporation	4 (100%)							4 (100%)
Chapter 14 - Nova Scotia Innovation Corporation	7 (100%)			1 (14%)			1 (14%)	5 (72%)

November 14, 2003 Report on the Consolidated Financial Statements of the Province of Nova Scotia For the Year Ended March 31, 2003 and Other Financial Reporting Practices								
Appendix 2 - Communications Required On Audit of Province's March 31, 2003 Consolidated Financial Statements	2 (100%)						1 (50%)	1 (50%)
Appendix 3 - Other Financial Reporting	2 (100%)						1 (50%)	1 (50%)
Total Recommendations	137 (100%)	4 (3%)	10 (7%)	1 (1%)	7 (5%)	3 (2%)	46 (34%)	66 (48%)

7.16 Government needs to take a direct role and responsibility for coordinating responses and actions on matters reported by the Auditor General. Government should regularly provide the House with its plans to deal with recommendations and other matters reported by the Auditor General. We recommend that government prepare and table its response to recommendations included in Reports of the Auditor General including plans for addressing them.

Recommendation 7.1

We recommend that government prepare and table in the House its response to and plans for addressing recommendations included in Auditor General's reports.

CONCLUDING REMARKS

7.17 We were generally pleased with the quality of government's response to our request and the effort that was put into the self-assessments. We were able to obtain sufficient support for the self-assessments to satisfy our review objectives with one exception.

7.18 The mission of the Office of the Auditor General is:

> "To serve the House of Assembly and the people of Nova Scotia by providing independent assurance and advice to enhance government accountability and performance."

7.19 In order to achieve our mission, we provided advice to government in the form of recommendations. For our Office to be successful, government needs to address our recommendations in one of two ways:

- timely implementation; or
- thorough consideration with a sound rationale for why the recommendation should not be implemented.

7.20 We found that 48% of our recommendations have been addressed and implemented on a timely basis. After three years, 41% are in various stages of implementation, and government has taken no action on another 7%. Although we are pleased that government has begun to address many of our recommendations, we are concerned with the timeliness of efforts to implement the necessary control improvements. Government needs to take a direct role and responsibility for coordinating responses and actions on matters reported by the Auditor General. Government should provide the House with its plans to deal with the recommendations and other matters reported by the Auditor General. We urge government to proceed with addressing and implementing the remaining recommendations as quickly as practical.

2003 Recommendations of the Auditor General and 2006 Implementation Status

Exhibit 7.1

2003 Recommendation	2006 Status
Chapter 2 - Accountability Information and Reporting	
2.1 We recommend that government take necessary steps to ensure all entities covered by the Provincial Finance Act meet the June 30 deadline for financial statements to be provided to Finance.	Complete[1]
2.2 We again recommend that policies and practices, used during the budgeting and accounting processes for recognition and measurement of Provincial taxes and other revenue transfers from the Federal government, be reviewed.	Complete
2.3 We recommend that the management/audit trail, supporting the accounting for Provincial taxes and other revenue transfers from the Federal government, be improved.	Work in Progress
2.4 We recommend government implement a requirement for annual compensation reporting by all Provincial public sector entities for executive and senior management positions.	Planning Stage
Chapter 3 - Central Financial Management System/SAP	
3.1 We recommend that senior management institute a formalized planning process for the Corporate Information Systems division so as to establish a clear vision and direction as well as a formalized process to set out the necessary operational requirements for the delivery of services to its various clients.	Complete
3.2 We recommend that priority be given to developing and implementing formal detailed policies, standards and practices for security as well as for correction and transport.	Complete
3.3 We recommend that management conduct a formal review of all Corporate Information Systems division operational responsibilities and determine the overall nature and extent of policies and standards that should be in place to promote a control conscious environment aligned with industry standard information technology control practices.	Complete
3.4 We recommend that government commission a full and independent audit of SAP security and control as soon as possible.	Complete [2]
3.5 Further, government should consider establishing a project to develop or otherwise acquire security and control 'best practices' in an SAP environment.	Complete
3.6 We recommend that the SAP_ALL profile should not be assigned to any staff or user ID in the production environment including BASIS staff. As a maximum there should only be one user ID established with this profile and it should be highly controlled and used only for emergency purposes.	Complete

Note 1 - Government has taken reasonable action to complete this recommendation. Some entities are still not meeting the deadline.

Note 2 - We have evaluated the status as "Work in Progress" - see our comments in paragraph 7.13 of this Chapter.

3.7 We recommend that management review the deployment of all powerful security profiles and authorization objects. This review should focus on the appropriateness of such deployments and examine the associated risks as well as the adequacy of the controls established to mitigate these risks.	Work in Progress
3.8 We recommend that a formal security policy be established including a component that specifically requires the following: - Once an ID goes 180 days without use it should be locked and the user contacted to determine if the ID is still required. - There should be an annual renewal of all user IDs to pick up changes in user responsibilities, movement of users between departments and termination of users.	Work in Progress
3.9 We recommend that all users listed as having the capability of updating key global accounting settings be examined to determine why they need these capabilities, and to assess the associated risks.	Work in Progress
3.10 We recommend that management make a determination of the issues and challenges in converting to a role-based approach to implementation of access security and develop a detailed transition plan for the conversion.	Work in Progress
3.11 We recommend that senior management establish and test a disaster recovery plan as soon as possible.	Complete
3.12 We recommend that the SAP Projects Office should ensure that the standard project implementation methodology includes the evaluation of the disaster recovery plan against the business requirements. This evaluation will feed into the update of the business owners' existing Business Continuity Plan.	Work in Progress
3.13 We recommend the establishment of a policy requiring all departments to have an appropriate business continuity plan, and that this plan be kept up-to-date on an ongoing basis. Further, we recommend the establishment of an initiative to undertake the development and implementation of a corporate business continuity planning process.	Work in Progress
3.14 We recommend that in conjunction with the development of a corporate business continuity planning process, that the Business and Technology Advisory Committee (BTAC) should also examine the needs for a corporate disaster recovery planning process, as it relates to the provision of computer services.	Planning Stage
3.15 We recommend that the SAP Projects Office should ensure that the standard project implementation methodology should include updating the business continuity plan to reflect the new system.	Work in Progress
3.16 We recommend that the current service level agreements should be reviewed by legal counsel.	Complete
3.17 We recommend that the agreements contain clauses to specifically address each party's responsibility for disaster recovery and business continuity planning.	Work in Progress
3.18 We recommend that government address the need for an annual service auditor review and reporting on the controls surrounding the SAP infrastructure and related Corporate Information Systems services.	Complete
3.19 We recommend that appropriate policies and procedures for using the SAP correction and transport system be designed, documented and implemented.	Complete
3.20 We recommend that use of the 'Remedy' system, or an acceptable alternative determined by management, be considered to manage the work flow of the SAP correction and transport system.	Complete

Chapter 4 - Housing Services	
4.1 We recommend the Department work with its Minister, government and the Legislature to update, and possibly consolidate, the Housing Act and Housing Development Corporation Act.	Work in Progress
4.2 We recommend Housing Services Division develop and monitor financial ratios and other performance measures for each of the various housing sponsors subsidized by the Department.	Complete
4.3 We recommend that the Department develop a formal, comprehensive system for conducting reviews and property inspections of housing sponsors. Policies concerning the selection, performance, quality control and follow-up of reviews and inspections should be documented.	Work in Progress
4.4 We recommend the Department improve its files for the monitoring of housing sponsors. The Department should also monitor rents charged by housing sponsors and assess them for reasonableness in comparison to market rents.	Work in Progress
4.5 We recommend the Division develop quality assurance procedures to ensure all Residential Rehabilitation Assistance Program requirements are being met.	Complete
Chapter 5 - Accountability of School Boards	
5.1 We recommend that the Education Act be changed to include June 30 as the date by which school boards are required to file financial statements with the Department of Education. This change would provide for consistency with the Provincial Finance Act.	Do not intend to implement recommendation
5.2 We recommend that the Department of Education update the plan for implementation of changes required by the Financial Measures (2002) Act to include timelines for each initiative. The Department should also formally monitor and periodically report achievement of the plan.	Complete
We recommend that the Department of Education update the plan for implementation of changes required by the Financial Measures (2002) Act related to commercial activities.	Work in Progress
5.3 We recommend that the Departments of Finance and Education continue with efforts to ensure that school board accounting policies comply with generally accepted accounting principles as defined by the Canadian Institute of Chartered Accountants and its Public Sector Accounting Board. The Regional School Board Financial Handbook should be issued in final form as soon as possible. The Department and school boards should also establish a mechanism to ensure that the Handbook is updated as generally accepted accounting principles evolve.	Complete
5.4 We recommend that the Department initiate discussions with the school boards, the external auditors and the Department of Finance with a view to obtaining a service organization audit opinion.	Complete
5.5 We recommend that the Department of Education finalize the Community Access to Schools policy.	Complete

5.6 We recommend that the Department of Education and the Education Funding Committee proceed with their plans to review the funding formula with a view towards establishing and implementing a formula which is consistent with the Department's *Principles of Education Financing* and available funding.	Complete
Chapter 6 - Universities - Internal Control and Financial Management	
Department of Education 6.5 We recommend that the Department of Education formally notify universities of its annual funding contribution prior to the beginning of the fiscal year and that the Department strive to establish a longer-term funding commitment.	Complete
Dalhousie University	
6.1 We recommend that the universities carefully monitor student accounts receivable balances, and take action where fees are not paid by the end of the semester.	Do not intend to implement recommendation
6.2 We recommend that all universities have inventory systems for capital assets, including computers and related equipment. These should be maintained and periodically verified through test counts. The universities should also have formal policies to govern the use and safekeeping of these assets.	Work in Progress
6.3 We recommend that universities document the rationale exempting specific purchases from compliance with policy and that all exceptions be formally approved by the person responsible for procurement.	Complete
6.4 We recommend that universities prepare annual business plans which are linked to strategic plans. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management and/or the Board (depending on the governance model in effect).	Do not intend to implement recommendation
6.6 We recommend that the approved budget for the year be included on the audited statement of revenue and expenditures. This information would be useful to increase accountability for achieving the financial plan for the year.	Do not intend to implement recommendation
6.7 We recommend that universities in Nova Scotia strive to implement common accounting policies. This would increase the comparability of financial information.	Do not intend to implement recommendation
6.8 We recommend that all universities establish a formal process to analyze and take appropriate action on all data inconsistencies identified by MPHEC.	Other [3]
6.9 We recommend that universities enhance systems for the identification of foreign students and verify citizenship status of students claiming Canadian citizenship but living outside Canada or submitting transcripts from abroad.	Do not intend to implement recommendation
Saint Mary's University	
6.1 We recommend that the universities carefully monitor student accounts receivable balances, and take action where fees are not paid by the end of the semester.	Complete
6.2 We recommend that all universities have inventory systems for capital assets, including computers and related equipment. These should be maintained and periodically verified through test counts. The universities should also have formal policies to govern the use and safekeeping of these assets.	No progress to date but plan to take action [4]

Note 3 - *Work was complete at time of audit.*
Note 4 - *Computer assets were complete at time of audit.*

6.3 We recommend that universities document the rationale exempting specific purchases from compliance with policy and that all exceptions be formally approved by the person responsible for procurement.	Complete
6.4 We recommend that universities prepare annual business plans which are linked to strategic plans. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management and/or the Board (depending on the governance model in effect).	Work in progress
6.6 We recommend that the approved budget for the year be included on the audited statement of revenue and expenditures. This information would be useful to increase accountability for achieving the financial plan for the year.	Other [5]
6.7 We recommend that universities in Nova Scotia strive to implement common accounting policies. This would increase the comparability of financial information.	Do not intend to implement recommendation
6.8 We recommend that all universities establish a formal process to analyze and take appropriate action on all data inconsistencies identified by MPHEC.	Complete
6.9 We recommend that universities enhance systems for the identification of foreign students and verify citizenship status of students claiming Canadian citizenship but living outside Canada or submitting transcripts from abroad.	Complete
University College of Cape Breton	
6.1 We recommend that the universities carefully monitor student accounts receivable balances, and take action where fees are not paid by the end of the semester.	Complete
6.2 We recommend that all universities have inventory systems for capital assets, including computers and related equipment. These should be maintained and periodically verified through test counts. The universities should also have formal policies to govern the use and safekeeping of these assets.	Work in Progress
6.3 We recommend that universities document the rationale exempting specific purchases from compliance with policy and that all exceptions be formally approved by the person responsible for procurement.	Complete
6.4 We recommend that universities prepare annual business plans which are linked to strategic plans. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management and/or the Board (depending on the governance model in effect).	Work in Progress
6.6 We recommend that the approved budget for the year be included on the audited statement of revenue and expenditures. This information would be useful to increase accountability for achieving the financial plan for the year.	Do not intend to implement recommendation
6.7 We recommend that universities in Nova Scotia strive to implement common accounting policies. This would increase the comparability of financial information.	Do not intend to implement recommendation
6.8 We recommend that all universities establish a formal process to analyze and take appropriate action on all data inconsistencies identified by MPHEC.	Complete
6.9 We recommend that universities enhance systems for the identification of foreign students and verify citizenship status of students claiming Canadian citizenship but living outside Canada or submitting transcripts from abroad.	Work in Progress

Note 5 - Budget was included at the time of audit.

Université Sainte-Anne	
6.1 We recommend that the universities carefully monitor student accounts receivable balances, and take action where fees are not paid by the end of the semester.	Complete
6.2 We recommend that all universities have inventory systems for capital assets, including computers and related equipment. These should be maintained and periodically verified through test counts. The universities should also have formal policies to govern the use and safekeeping of these assets.	No progress to date but plan to take action
6.3 We recommend that universities document the rationale exempting specific purchases from compliance with policy and that all exceptions be formally approved by the person responsible for procurement.	No progress to date but plan to take action
6.4 We recommend that universities prepare annual business plans which are linked to strategic plans. Business plans should set out operational priorities for the year and related financial information. These plans should be approved by senior management and/or the Board (depending on the governance model in effect).	No progress to date but plan to take action
6.6 We recommend that the approved budget for the year be included on the audited statement of revenue and expenditures. This information would be useful to increase accountability for achieving the financial plan for the year.	Complete
6.7 We recommend that universities in Nova Scotia strive to implement common accounting policies. This would increase the comparability of financial information.	Do not intend to implement recommendation
6.8 We recommend that all universities establish a formal process to analyze and take appropriate action on all data inconsistencies identified by MPHEC.	Work in Progress
6.9 We recommend that universities enhance systems for the identification of foreign students and verify citizenship status of students claiming Canadian citizenship but living outside Canada or submitting transcripts from abroad.	Work in Progress
Chapter 7 - Oil and Gas Exploration and Production	
7.1 We recommend that performance reports prepared by the Department state more clearly the objectives being sought and relate the results of the Department's activities to those objectives, along with explanations if targets are not achieved.	Complete
7.2 We recommend the Department review its plans for royalty audits to determine if sufficient resources are allocated to ensure audits are completed on a timely basis and address all necessary areas.	Work in Progress
7.3 We recommend that the Departments of Energy and Natural Resources develop monitoring procedures to ensure all documentation required has been received and is in the appropriate files.	Work in Progress
Chapter 8 - IWK Health Centre	
8.1 We recommend that the Health Centre institute a quality assurance process for the budget, including an independent review by someone other than the preparer, such as the internal auditor.	Complete
8.2 We recommend that the Health Centre strive to document all initiatives approved during the review and challenge of the business plan and budget.	Complete
8.3 We recommend that operational plans be formal and written. This would ensure that staff have plans in place to fully address any budget shortfall and provide better accountability for funds.	Work in Progress

8.4 We recommend that the Health Centre comply with the provisions of the Health Authorities Act and the Affiliation Agreement relating to joint planning and shared services. Such services should be formally reported upon and evaluated as required.	Work in Progress
8.5 We recommend that management monitor and report during the year on specific savings initiatives approved during the Business Planning process.	Complete
8.6 We recommend that the Health Centre, in conjunction with the facility's supplier of abstraction software, make necessary changes to assure that all mandatory fields must be completed before data can be submitted to CIHI. Also, all error reports received from CIHI should be retained and a process implemented to ensure all corrections are made.	Work in Progress
8.7 We recommend that the Health Centre ensure the Meditech system, which is used to support radiologists' submissions to the Department of Health, accurately reflects the numbers of diagnostic procedures performed.	Complete
8.8 We recommend that the IWK disclose its related party relationship with the Foundation, including transactions between the two entities during the year, in the notes to the Health Centre's financial statements.	Complete
8.9 We recommend that the Health Centre analyze the risks, costs and benefits associated with drug distribution systems and consider whether it would be appropriate to move to a unit dose system on a more timely basis.	Work in Progress
8.10 We recommend that the Health Centre update its internal procurement policies to comply with the Government's requirements for the ASH sector and clarify internal instructions to ensure compliance with policies.	Complete
8.11 We recommend - formal approval of all purchase requisitions by the purchasing manager; and - production and review of price change exception reports to ensure that all price changes have been approved.	Complete
8.12 We recommend the Health Centre - review the segregation of duties among staff with pharmacy inventory responsibilities with a view towards improving internal controls; - ensure that there is appropriate segregation of incompatible duties such as receipt of goods and maintenance of accounting records; and - ensure that senior financial management reviews adjustments to perpetual inventory.	Other - Partially implemented
8.13 We recommend that the Health Centre continue to work with other facilities across Canada and organizations such as the Department of Health and the Canadian Institute for Health Information to further develop targets, monitor performance and make comparisons between facilities.	Work in Progress
Chapter 9 - Long Term Care	
9.1 We recommend that the Department prepare: • strategic plans; and • operational/business plans for the Long-term Care program.	Complete Work in Progress
9.2 We recommend that DOH continue with its efforts to develop an overall funding formula for the Long-term Care program.	Work in Progress
9.3 We recommend that the Province ensure reasonable estimates of the costs of policy changes are calculated and included in the Estimates. These estimates should be available before policy changes are approved.	Work in Progress

9.4 We recommend that DOH continue with its efforts to accumulate total outstanding facility loans and mortgages for long-term care facilities. This outstanding amount should be monitored for financial planning purposes.	Work in Progress
9.5 We recommend that DOH issue formal, written responses to the recommendations of Task Forces and other groups engaged to review long-term care.	Complete
9.6 We recommend that DOH work with its regional offices to develop standard procedures for invoice approval that include verifying new residents, ensuring deceased residents are removed from billings, ensuring mathematical accuracy, and regional and central office approval of invoices before payment. We also recommend that the Department develop a system to monitor compliance with these procedures.	Work in Progress
9.7 We recommend that the Eligibility Review Unit of DOH: • ensure all procedures completed during the financial assessment process are documented;	Work in Progress
• obtain official Notices of Assessment or electronic data from Canada Customs and Revenue Agency in addition to copies of income tax returns to ensure income information on file is accurate; and	Complete
• develop policies to address non-compliance with the financial assessment process.	Complete
9.8 We recommend that DOH increase its financial monitoring of facilities and consider requesting forecast information on a quarterly basis. DOH should also consider whether processes are required to monitor areas such as financial management, internal controls, compliance with policies, and due regard for economy and efficiency in LTC facilities.	Work in Progress
9.9 We recommend that DOH develop performance indicators for the Long-term Care program. These indicators should include measures at the Department level as well as measures related to the services long-term care facilities provide. Requiring facilities to periodically report standard performance measures would enhance their accountability to the Department.	Planning Stage
9.10 We recommend that DOH review the remaining recommendations from our 1997 and 1998 audits, including: • new long-term care legislation and regulations;	No progress to date but plan to take action
• requirements for periodic reassessments of residents' care needs;	No progress to date but plan to take action
• periodic reassessments of residents' financial status; and	Complete
• care standards.	Work in Progress
Chapter 10 - Payments to Physicians	
10.1 We recommend that DOH conduct a detailed analysis of the risks and benefits associated with the payment of claims for patients with expired health cards and that appropriate controls and procedures be implemented.	Work in Progress
10.2 We recommend that DOH establish an audit appeals process.	Work in Progress
10.3 We recommend that DOH perform a risk analysis on bulk-billed radiology and pathology claims and establish appropriate audit procedures in conjunction with ABCC.	Work in Progress

10.4 We recommend that DOH ensure external auditors or the Department of Finance's Corporate Internal Audit Group are engaged annually to audit medical payments to physicians paid by ABCC.	Work in Progress
10.5 We recommend that DOH amend the contract with Quikcard Solutions Inc. to require the external auditors of Quikcard to prepare a management letter detailing any internal control weaknesses as well as a short-form audit opinion.	Complete
10.6 We recommend that DOH ensure quarterly internal audits of claims processed are performed by an individual who does not have claims processing responsibilities.	Complete
10.7 We recommend that DOH ensure appropriate follow up is completed to determine whether expected cost savings have been achieved by new projects.	Work in Progress
10.8 We recommend that DOH fully address all findings from our 1998 and 2000 Reports. In particular, we recommend that the Department obtain a legal opinion regarding ownership rights to the MSI software.	Other[6]
Chapter 11 - Court Services	
11.1 We recommend that the Division continue to develop and implement standards for court services and include a process for reporting on achievements.	Work in Progress
11.2 We recommend that cost and other financial analysis be included as part of program assessments.	Complete
11.3 We recommend the Division monitor the number of waiver applications received and the amount of fees waived in order to better assess the impact of waivers on government revenues, as well as on access to justice.	Work in Progress
11.4 We recommend that the Division ensure all ticket booklets disbursed are properly recorded in the logbook. We also recommend the Division establish and implement a policy for the periodic review of confirmation receipts to ensure all forms are signed and returned as required.	Complete
Chapter 12 - Nova Scotia Gaming Foundation	
12.1 We recommend that the Foundation and Office of Health Promotion clarify the roles, responsibilities and accountabilities of both parties and incorporate this in any Memorandum of Understanding.	Complete
12.2 We recommend that the Board consider implementing a formal process to monitor targets set out in the strategic plan.	No progress to date but plan to take action
12.3 We recommend that the Board further explore its composition and, if appropriate, request that the Minister appoint additional directors.	Complete
12.4 We recommend that the Foundation Board expand its conflict of interest policy to formally include action to be taken when conflicts are disclosed.	Complete
12.5 We recommend that the following potential conflict of interest areas be addressed in a Memorandum of Understanding between the Foundation and the Office of Health Promotion: - the Board Chair's role as a Director Addiction Services with the District Health Authorities and related role in applying for Foundation grants on behalf of DHAs;	Complete

Note 6 - Recommendations already followed up and previously reported.

- the Foundation's sole employee's reporting relationship to the Director Addiction Services at the Office of Health Promotion when the Director has involvement in grant applications submitted by Addiction Services.	
12.6 We recommend the Foundation complete its website to enhance communications and address related concerns reported in the *Brand and Marketing Strategy Report*.	Complete
12.7 We recommend the Foundation require progress reports from grant applicants prior to payment of subsequent grant instalments.	Complete
12.8 We recommend that the Foundation: - *formally approve its draft investment policy; and* - develop a long-term financial plan to address projected grant funding and capital to be maintained.	Work in Progress Complete
Chapter 13 - Municipal Finance Corporation	
13.1 We recommend that the Corporation's Annual Reports be tabled in the House of Assembly on a timely basis.	Complete
13.2 We recommend that the Corporation report on its achievements related to the goal and priority of providing funds at the lowest possible cost.	Complete
13.3 We recommend that all policies related to the Corporation be documented and accumulated in a comprehensive reference source.	Complete
13.4 We recommend the business plan be updated to reflect the current practices of the Corporation.	Complete
Chapter 14 - Nova Scotia Innovation Corporation	
14.1 We recommend that terms of reference for the Investment Review Committee should be documented and approved by the Board of Directors. The terms of reference should include authorization limits, meeting protocols and roles and responsibilities, as well as formalize the reporting process between the Committee and the Board.	Complete
14.2 We recommend that the Board identify roles and responsibilities for officers of the Corporation. Authorization limits should also be established.	Complete
14.3 We recommend that a system to monitor, measure and report on performance be developed. Focus should be given to those areas which are critical to the success of, or represent a significant risk to, InNOVAcorp.	Complete
14.4 We recommend that criteria upon which bonuses are to be based should be clearly defined and communicated to the eligible employees. Evaluation against these criteria should be documented.	Complete
14.5 We recommend that any costs associated with the investment or services provided to InNOVAcorp's subsidiary, The Decision Point, be separately disclosed in InNOVAcorp's operating results.	Action no longer required

14.6 We recommend that senior management review the program administration guidelines for the Nova Scotia First Fund. These guidelines should include investment eligibility criteria, and should clearly differentiate the policies related to uncommitted funds. The guidelines should be approved by the Board as it has overall responsibility for administration of the Fund.	Complete
14.7 We recommend that InNOVAcorp update the documentation for its procurement policies and procedures. These policies and procedures should be compatible with Provincial requirements, detail when a competitive process is required, and address the use of purchasing cards.	Work in Progress
Report of the Auditor General On the Consolidated Financial Statements of the Province of Nova Scotia For the Year Ended March 31, 2003 and Other Financial Reporting Practices	
Appendix 2 - Page 7 - I recommend the government, with leadership from the Minister of Finance, monitor PSAB initiatives, as well as relevant accounting recommendations from CICA and internationally, in order to ensure adjustments necessary to government's financial planning and reporting be implemented on a timely basis.	Work in Progress
Appendix 2 - Page 9 - I recommend government ensure all provincial entities comply with Section 16(2) of the Provincial Finance Act that requires financial statements be available to Finance by the end of June.	Complete[7]
Appendix 3 - Page 11 - I recommend that government financial information and reporting to the House of Assembly be prepared and presented in a manner consistent with generally accepted accounting principles.	Work in Progress
Appendix 3 - Page 11 - I recommend that where comparative financial information or reporting by government is not or cannot be prepared on the same basis of accounting, supplementary information be provided on the differences and their dollar impact so that readers can appropriately consider the effects of the changes. Even if changes are applied retroactively (i.e., restatement of previously released information) appropriate information needs to be provided by way of footnote so that readers can assess the effect of the changes.	Complete

Note 7 - Government has taken reasonable action to complete this recommendation. Some entities are still not meeting the deadline.

Other Audit Observations

8 REVIEW OF FINANCIAL STATEMENTS AND MANAGEMENT LETTERS

INTRODUCTION

8.1 The financial statements of crown corporations and agencies, funds of the government of Nova Scotia, and trusts administered by the government of Nova Scotia, are in some cases audited by the Office of the Auditor General and in other cases by private sector auditors licensed under the Public Accountants Act.

8.2 Section 17 of the Auditor General Act permits this Office to conduct additional reviews of those entities where financial statements are reported on by private sector auditors. This Chapter contains comments on our review of the results of financial statement audits by private sector auditors, as well as comments on audits performed by this Office.

FINANCIAL STATEMENT AUDITS

8.3 The Auditor General is responsible for the annual audit of the consolidated financial statements of the Province of Nova Scotia. See Chapter 2 of this Report for comments and observations on our audit of the Province's March 31, 2006 statements.

8.4 In preparing this chapter, we reviewed the audited financial statements and reports prepared by our Office and by private sector auditors. Our review focused on whether:

- there were any qualifications of auditors' opinions on the financial statements;
- the audit opinion was based on Canadian generally accepted accounting principles, or on a disclosed basis of accounting;
- there was any indication of inadequate controls over accounting records; and
- there was timely preparation and audit of annual financial statements.

8.5 The following observations resulted from our review.

Reservations of Opinion

8.6 The result of an audit is an opinion on whether financial statements present fairly the financial position of the entity at its fiscal year end and the results of its operations for the year then ended. Where there are qualifications of an audit opinion or situations in which it was not possible to render an opinion, we believe it is appropriate to report on such matters and have done so below.

8.7 Qualified audit opinions were issued by the auditors of:

- *Halifax Regional School Board, South Shore Regional School Board, Strait Regional School Board, Tri-County Regional School Board, Annapolis Valley Regional School Board, and Conseil scolaire acadien provincial* due to concerns about the controls over school-based funds.
- *Art Gallery of Nova Scotia* due to insufficient evidence to indicate whether revenue is complete, which is consistent with prior years.
- *E911 Cost Recovery Fund* due to insufficient evidence to indicate whether expenses of the fund are complete.
- *N.S. Farm Loan Board* because of insufficient, satisfactory evidence relating to management's estimate of provisions for loan and real estate impairment.
- *Public Trustee* due to insufficient evidence to indicate whether trust income and assets are complete, which is consistent with the prior year.
- *Cumberland Regional Economic Development Association* due to the valuation of long-term investments.

Disclosed Basis of Accounting

8.8 As the result of changes to the Canadian Institute of Chartered Accountants Handbook, auditors can no longer give unqualified opinions on general purpose financial statements unless the statements comply with Canadian generally accepted accounting principles (GAAP). Audit reports on financial statements prepared using a disclosed basis of accounting, rather than GAAP, are deemed to be for specific users - not for general purpose - and should include wording similar to the following:

> "these financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of (the addressee) and; the regulator or legislator ... for the (purposes(s)), and are not intended to be and should not be used by anyone other than the specified users, or for any other purpose..."

8.9 The preparation of financial statements on other than a GAAP basis reduces the value of the statements to the House and the general public.

8.10 The following entities' financial statements were prepared on a disclosed basis of accounting rather than Canadian generally accepted accounting principles.

- *N.S. Power Finance Corporation* - The financial statements were prepared on a disclosed basis of accounting.

- *Sherbrooke Restoration Commission* - The financial statements were prepared using accounting principles for museum boards in Nova Scotia as prescribed by the Department of Tourism, Culture and Heritage.

Financial Controls and Records

8.11 During financial statement audits, situations were noted where accounting and control systems or procedures were deficient. These weaknesses in internal controls were reported by the auditors in management letters to the crown corporations or agencies. Although they were not of a magnitude to require reservation of an audit opinion, the more significant observations are summarized below under each entity's name.

Regional School Boards

- *Annapolis Valley Regional School Board* - All advances to individuals should be reconciled to the receipts and money returned.

- *Chignecto-Central Regional School Board* - Collection of fees from a particular organization was slow. The auditors noted that since payment is not expected within the next year, classification of the liability as current might not be in accordance with GAAP. The auditors were also concerned about collectability of the balance.

- *South Shore Regional School Board and Tri-County Regional School Board* - There was no formal process for documenting, testing and evaluating internal controls at the Boards. There was also no formal process to identify and evaluate internal and external business risks. Approval and documentation for electronic cheque signatures were not necessarily sufficient, although both signatures appeared on the cheques as required. The Information Technology function does not have explicit plans and objectives that are aligned with the Boards plans and objectives. Also system event logs and activity reports for the server at the Finance Department are not being reviewed and evaluated, and no security policies and procedures are in place for setup of new users or termination of existing users.

- *South Shore, Tri-County, Halifax, and Strait Regional School Boards* - A CICA Section 5900 Auditor's Report on the SAP Customer Competency Center reported that there were internal control exceptions identified in the operating effectiveness of a number of internal control procedures that support the overall control objectives. Management needs to assess the risks these exceptions have on their individual financial reporting environments.

- *Strait Regional School Board* - Bank reconciliations were not done consistently for school-generated fund activities. Also, cheques were presigned with one signature and not kept in a secure location. There was no regular backup up of financial information.

- *Halifax Regional School Board* - Cash is not always accompanied by the correct forms and receipts are not consistently issued for funds received. The 68% refund of HST is not claimed on a consistent basis. Not all cheques had two signatures, and some cheques had the payee as one of the signatures. Also, not all schools received cancelled cheques from the bank and there is no formal process for approving all invoices.

District Health Authorities

- *Annapolis Valley District Health Authority, South West Nova District Health Authority and South Shore District Health Authority* - A number of receivable balances had been outstanding for extended periods of time. Funding from Foundations and Auxiliaries relating to their commitments is not being invoiced in a timely manner. Also, there was no formal, documented Disaster Recovery Plan for recovery of the information processing environment. Information Services is not notified of employee departures in some districts. Test results are not retained for changes to applications, the network and the operating systems. There was a need to improve the timeliness of financial reporting and the turnaround of variance analysis. In addition, the auditor for Annapolis Valley District Health Authority noted gaps in processes surrounding the control of certain "controlled substances".

- *Cape Breton District Health Authority* - Several employees have vacation carried forward from prior years in excess of amounts permitted in the Authority's policies. Expenditures for one supplier were broken down into three invoices so each invoice would be under an employee's authorization threshold. Also, there is a lack of review of wage entitlement status which could result in inaccurate payments to employees.

- *Colchester East Hants Health Authority* - Revenues, receipt of payments, and recording duties were not properly segregated. Additionally, payroll functions were not appropriately segregated.

- *Cumberland Health Authority* - The accounts receivable subledgers were not reviewed in sufficient detail prior to the audit and receipts were not posted in the proper periods, resulting in audit adjustments. The materials management accrual report was not accurate and accruals at month end had been consistently understated by an unknown amount. Also, employee payroll files are kept in boxes in the common area of the Finance Department with no restricted access. Various employees have access rights to the financial system that are inappropriate.

- *Guysborough Antigonish Strait Health Authority* - Several packing slips or invoice audit blocks were not initialled as evidence of receipt of the goods or services. Also, certain time cards were not appropriately approved.

- *Pictou County Health Authority* - Certain journal entries were not appropriately reviewed and/or approved by management. Some senior management have

access to both accounts payable and payroll master files. Also, all payroll clerks can access and change employee master files.

Other Entities

- *Insured Prescription Drug Plan Trust Fund* - Certain business users have administrator access rights to financial applications. Also, security events occurring at both the operating system and database level are not reviewed.

- *Izaak Walton Killam Health Centre* - Certain users are allowed to emulate other users, that is access the system with all the rights of the other users. Such usage is tracked in a log that is not being regularly reviewed. The emulation rights should be removed or the log reviewed on a regular basis. Also regular reviews of users' access to key applications was not being performed.

- *Nova Scotia Business Inc.* - Payroll input to SAP was not compared to supporting documents. Segregation of duties in the payroll process was not appropriate. Also, there was no independent management review or approval of SAP journal entries and the support for the journal entries was not consistently maintained. No procedures were in place to ensure that all data entered into the loan portfolio management system was reviewed and approved. Year end valuation for the annual loan review process was not always based on the most current, third-party information.

- *Nova Scotia Farm Loan Board* - Inadequate monitoring of loans, lack of documentation to support the loan valuation process, and weaknesses in business processes and internal controls resulted in the inability to conclude on the accuracy of provisions for real estate impairment.

- *Nova Scotia Fisheries and Aquaculture Loan Board* - The Board's books of accounts do not report all transactions and the balances of these accounts do not equal the amounts in the financial statements. The loans subledger and general ledger are not reconciled. There is inadequate documentation supporting the allowance amount for impaired loans. Vessel inspections, which are the basis for the allowance for impaired loans, are not being done as frequently as the Board's policy requires. Also, interest accrued prior to declaring a loan to be impaired was not being included in the allowance for loan impairments.

- *Nova Scotia Gaming Foundation* - The amount of any surplus that is to be transferred to the Community Development Account (CDA) is not clearly outlined in the Memorandum of Agreement (MOA) and should be agreed upon by the N.S. Gaming Foundation and the Department of Health Promotion and Protection. Also, the Foundation is not complying with one section of the MOA which requires the Department of Finance to invest the CDA balance. This section of the MOA should be reviewed and amended if appropriate.

- *Nova Scotia Health Research Foundation* - There were problems with the accuracy and completeness of the accounts and grants payable systems which have been

an ongoing concern since the auditor's involvement with the Foundation. The Foundation's investment policy has a primary objective of preservation of capital; however, the Foundation is now investing in equity mutual funds, including significant foreign holdings. These investments suggest an objective of maximizing returns which is contrary to the investment policy. The current portfolio could have a negative impact on the Foundation's financial position if there was a significant downturn in the equity market.

- *Nova Scotia Legal Aid Commission* - The accounts payable subledger is out of balance with the general ledger again this year. Payments to the Board of Directors did not have corresponding T4s or T4As issued.

- *Nova Scotia School Boards Association* - The non-teachers pension plan is not being audited, contrary to the declaration of Trust of the plan.

- *Agritech* - Agritech uses the tangible capital assets policy of the Province. Due to the size of Agritech, that is not appropriate. Items that are material to Agritech fall below the Province's thresholds for capitalization and are being expensed. Also, Agritech does not have an inventory of capital assets.

- *Members' Retiring Allowances Act Accounts* - The interest rate used by the actuary in his evaluation differs from that prescribed by regulation to be applied to the accounts. The actuary reported required additional contributions higher than those prescribed by negotiations. The Members' Retiring Allowance Act Accounts are an unfunded pension obligation and this is not clear in the Financial Statements or the Actuarial Valuation.

- *Resource Recovery Fund Board* - One approved program had been withdrawn but the amount approved was still recorded as committed. Some funding files were missing the approved program funding payment sheet. Also, one file had a final payment notice, but still had an amount outstanding.

- *Sherbrooke Restoration Commission* - Management does not document evidence of review of monthly bank reconciliations and a number of blank cheques had been presigned.

- *Canada-Nova Scotia Offshore Petroleum Board* - The Board should consider forming a separate audit committee to review financial statements, etc.

- *N.S. Long Term Disability Plan* - Premiums and Employment Insurance rebates received are not verified for accuracy.

- *Highway 104 Western Alignment Corporation* - Concern was expressed about electronic systems security.

- *N.S. Liquor Commission* - Management should implement a more robust capital asset project accounting and approval process and certain Balance Sheet accounts, though not materially misstated, require reconciliation.

Timeliness of Financial Reporting

8.12 The Provincial Finance Act requires that financial statements for government business enterprises and governmental units be submitted to the Minister of Finance by June 30 following the fiscal year end (usually March 31).

8.13 There continue to be problems with receiving submissions by the deadline. This year, there were 20 entities (21 in 2005) that were not successful in providing audited financial statements and requested information by June 30.

8.14 The Province's March 31, 2006 consolidated financial statements were released on September 29, 2006 meeting the reporting requirement set out in the Provincial Finance Act.

Appendix

I AUDITOR GENERAL ACT - SECTIONS 8, 9, 15, 17

AUDITOR GENERAL ACT

SECTION 8

The Auditor General shall examine in such manner and to the extent he considers necessary such of the accounts of public money received or expended by or on behalf of the Province, and such of the accounts of money received or expended by the Province in trust for or on account of any government or person or for any special purposes or otherwise, including, unless the Governor in Council otherwise directs, any accounts of public or other money received or expended by any agency of government appointed to manage any department, service, property or business of the Province, and shall ascertain whether in his opinion

(a) accounts have been faithfully and properly kept;

(b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the capital and revenue receipts;

(c) money which is authorized to be expended by the Legislature has been expended without due regard to economy or efficiency;

(d) money has been expended for the purposes for which it was appropriated by the Legislature and the expenditures have been made as authorized; and

(e) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

SECTION 9

(1) The Auditor General shall report annually to the House of Assembly on the financial statements of the Government that are included in the public accounts required under Sections 9 and 10 of the *Provincial Finance Act*, respecting the fiscal year then ended.

(2) The report forms part of the public accounts and shall state

(a) whether the Auditor General has received all of the information and explanations required by the Auditor General; and

(b) whether in the opinion of the Auditor General, the financial statements present fairly the financial position, results of operations and changes in financial position of the Government in accordance with the stated accounting policies of the Government and as to whether they are on a basis corsistent with that of the preceding year.

(3) Where the opinion of the Auditor General required by this Section is qualified, the Auditor General shall state the reasons for the qualified opinion.

SECTION 9A

(1) The Auditor General shall report annually to the House of Assembly and may make, in addition to any special report made pursuant to this Act, not more than two additional reports in any year to the House of Assembly on the work of the Auditor General's office and shall call attention to every case in which the Auditor General has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any public money belonging to the Province;

(b) any public money was not duly accounted for and paid into the Consolidated Fund of the Province;

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by the Legislature;

(d) an expenditure was not authorized or was not properly vouched or certified;

(e) there has been a deficiency or loss through fraud, default or mistake of any person;

(f) a special warrant, made pursuant to the provision of the *Provincial Finance Act*, authorized the payment of money; or

(g) money that is authorized to be expended by the Legislature has not been expended with due regard to economy and efficiency.

(2) The annual report of the Auditor General shall be laid before the House of Assembly on or before December 31st of the calendar year in which the fiscal year to which the report relates ends or, if the House is not sitting, it shall be filed with the Clerk of the House.

(3) Where the Auditor General proposes to make an additional report, the Auditor General shall send written notice to the Speaker of the House of Assembly thirty days in advance of its tabling or filing pursuant to subsection (2).

(4) Whenever a case of the type described in clause (1)(a), (b) or (e) comes to the attention of the Auditor General, the Auditor General shall forthwith report the circumstances of the case to the Minister.

(5) The Auditor General shall, as soon as practical, advise the appropriate officers or employees of an agency of Government of any significant matter discovered in an audit.

(6) Notwithstanding subsection (1), the Auditor General is not required to report to the House of Assembly on any matter that the Auditor General considers immaterial or insignificant.

SECTION 9B

(1) The Auditor General shall annually review the estimates of revenue used in the preparation of the annual budget address of the Minister of Finance to the House of Assembly and provide the House of Assembly with an opinion on the reasonableness of the revenue estimates.

(2) The opinion of the Auditor General shall be tabled with the budget address.

SECTION 15

Notwithstanding any provision of this Act, the Auditor General may, and where directed by the Governor in Council or the Management Board shall, make an examination and audit of

(a) the accounts of an agency of government; or

(b) the accounts in respect of financial assistance from the government or an agency of the government of a person or institution in any way receiving financial assistance from the government or an agency of government,

where

(c) the Auditor General has been provided with the funding the Auditor General considers necessary to undertake the examination and audit; and

(d) in the opinion of the Auditor General, the examination and audit will not unduly interfere with the other duties of the Office of the Auditor General pursuant to this Act,

and the Auditor General shall perform the examination and audit and report thereon.

SECTION 17

(1) Where the Governor in Council pursuant to this Act or any other Act has directed that the accounts of public money received or expended by any agency of government shall be examined by a chartered accountant or accountants other than the Auditor General, the chartered accountant or accountants shall

(a) deliver to the Auditor General immediately after the completion of the audit a copy of the report of findings and recommendations to management and a copy of the audited financial statements relating to the agency of government; and

(b) make available to the Auditor General, upon request, and upon reasonable notice, all working papers, schedules and other documentation relating to the audit or audits of the agency accounts.

(2) Notwithstanding that a chartered accountant or accountants other than the Auditor General have been directed to examine the accounts of an agency of government, the Auditor General may conduct such additional examination and investigation of the records and operations of the agency of government as he deems necessary.